With Compliments to:
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Corporate Social Responsibility

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Preface

The present research volume represents a compilation of papers relating to Corporate Social Responsibility (CSR), one of the thrust areas under the Third Phase of the Special Assistance Programme in Commerce (2004-09) granted by the University Grants Commission. The volume offers the reader ten research-oriented papers focusing on multiple facets of the core theme of CSR, which is one of the most challenging strategic areas of business enterprises today. Half of the papers are the outcome of revised versions of presentations made at the 1st National Seminar of the DSA Programme in Commerce (Third Phase) held on March 5 and 6, 2005. The remaining papers are contributed by faculty members of the Department and other institutions on invitation. All the papers went through review and revision involving a considerable period of time. The issues covered here include emerging dimensions of CSR, the link between sustainable development and CSR, socially responsible investing (SRI), ethical investing, the economic logic of CSR, the drivers and obstacles of CSR initiatives in organizations, CSR practices in BRICS countries, sustainability reporting practices of companies with respect to climate change, comparative analysis of CSR practices in the USA and India with reference to sustainability reporting, and the corporate citizenship initiatives of National Thermal Power Corporation (NTPC) Ltd.

In the first paper, R. P. Banerjee highlights various models and concepts of CSR, and explores ancient and current sources to examine them. The western and Indian views on the subject and practices of CSR are discussed to draw suitable conclusions.

The second paper by Tanima Ray and Amitava Sarkar seeks to establish a link between the two issues of CSR and sustainable development by exploring how the former contribute to the latter in the form of an economic model of resource optimization.

The third paper by Kanika Chatterjee dwells upon various aspects relating to Socially Responsible Investing (SRI) as an ethical approach to investment, and underscores some insightful findings from academic research to argue whether SRI can truly serve as a reliable guiding light to ethically oriented investors.

In the fourth paper, Tanupa Chakraborty concentrates on ethical investing as a key tool for building a sustainable future. She examines the definition of ethical investing, as well as the issues and strategies involved therein, the SRI market, its evolution and growth.

The fifth paper by Swapan Chakraborty focuses on the ways in which multinational companies and the domestic corporate sector can discharge their social obligations in an effort to reduce the burden of external diseconomies resulting from capitalistic modes of production.

In the sixth paper, Dhrubaranjan Dandapat seeks to identify the factors motivating a company to take up CSR programmes and also highlights the several obstacles on the way to adopting these programmes.

The seventh paper by Malayendu Saha draws attention to the growing economic and political significance of emerging countries such as Brazil, Russia, India, China and South Africa (BRICS) that provide a general context for the future directions of CSR worldwide.

In the eighth paper, Qi Chen and Mike Jones look at the sustainability reporting practices of 50 leading global energy companies with regard to disclosure of information on carbon emissions. This paper is based on Qi Chen's M. Sc. dissertation.

In the ninth paper, Melkote K. Shivaswamy and Bhabatosh Banerjee examine the scope, content, and evolution of CSR in the western economies and make inferences on the basis of a study of annual reports of six noteable companies – three from the US and three from India.

The tenth paper by Ashish Sana is in the nature of a case analysis of NTPC Ltd., the largest power generating company in India, and the various social and environmental initiatives it has undertaken over the years in its endeavour to emerge as a responsible corporate citizen.

We express our heartfelt gratitude to the University Grants Commission, New Delhi, for providing the necessary financial assistance in the publication of this volume. We are very grateful to our Hon'ble Vice Chancellor, Professor Asis Kumar Banerjee, for his unflinching support and inspiration in all our academic pursuits, including the publication of this book. We convey our deepest thanks to each and every author for their painstaking, patience, and perseverance in improving their papers and contributing towards the enrichment of the academic quality of the present publication. Last, but not the least, we would like to put in a word of thanks to all the people at M/s Ajanta Printers for printing the book within the budget limit and the imposed constraints of time.

January 9, 2008

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Foreword

It is a matter of great pleasure for me to write this foreword to 'Corporate Social Responsibility', a research volume that relates to one of the thrust areas of the Special Assistance Programme (Third Phase) of the U.G.C. in the Department of Commerce.

The responsibilities of the corporate organisations to the various stakeholders of the society have increased over time. Society's expectation from them has also gone up. Indian companies are now competing with their counterparts in the global market. In this backdrop, a study of the various aspects of Corporate Social Responsibility - its evolution, scope, content, sustainability, policy, practices, ethical investing, logistics, drivers and obstacles, etc. - is a welcome step.

This volume contains ten research papers on the subject contributed mostly by the faculty members of the Department of Commerce, University of Calcutta. It is good to see that our faculty members have been continuously engaging themselves in research and publishing volumes in several thrust areas identified by the UGC for the Third Phase of the Programme.

I am confident that this research volume would promote further interactions and research on the subject.

A. K. Banerjee

(Prof. Asis Kumar Banerjee)

About the Contributors

Dr. R. P. Banerjee is currently the Dean and Director of EIILM (rated A+ B-School by Business India). Prior to this, he has worked at IIM Calcutta and some other institutes as faculty in different capacities. He visited Stockholm University, Sweden with teaching assignments. He has contributed academic papers in the area of Finance as well as Ethics and Values in Indian and international journals. He has authored or co-authored fourteen books so far. Dr. Banerjee believes in the spiritual dimension of management. He can be contacted at rpbanerjee@rediffmail.com.

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Kanika Chatterjee is Reader in Commerce, University of Calcutta. Currently, she teaches International Business, Strategic Management and Business Ethics in the M.Com and MBA in Finance programmes, respectively of this University. She is also a Guest Faculty in Business Ethics in the MBM Department, University of Calcutta. For the last fifteen years, she has been avidly involved in research, teaching and creating awareness about the underlying ethical issues of business in the area of corporate environmental and sustainability management. Over the years,

she has published many papers in national journals and edited volumes on environmental cost management, sustainability reporting, corporate environmental strategy, ecopreneurship, fair trade and corporate citizenship. She has completed a research project on "Environmental Reporting Systems in the Indian Automobile Industry" under the DSA in Commerce (Phase II) programme. Presently, she is undertaking a research project on "Sustainability Reporting as an Indicator of Strategic Corporate Citizenship" under the DSA in Commerce (Phase III) programme. Chatterjee is executive editor of the official journal of the Department of Commerce, *Business Studies*, since 1995.

Dr. Tanupa Chakraborty is presently Senior Lecturer in the Department of Commerce, University of Calcutta. She is an M.Com., M.Phil, C.S. and has done her Ph.D on 'Share Buyback in India' under University of Calcutta. Beginning in 2001, Dr. Chakraborty has been involved in teaching at under-graduate level for two and half years and is teaching at post-graduate level since the past six and half years. She has presented a number of papers at various national and international conferences on emerging issues like 'economic value added', 'corporate social responsibility', 'share buyback', 'online banking', 'treasury management' etc. in the field of accounting and finance. Her publications include twelve research based articles on the above-mentioned issues in reputed journals such as *The Chartered Accountant, The Management Accountant, Research Bulletin, Management and Accounting Research, Indian Accounting Review*, etc. She is also the author of the book "Buyback of Shares in India" published by New Century Publications, New Delhi (2008).

Dr. Swapan Kumar Chakraborty obtained his Master's degree in Economics (with specialisation in econometrics) and Ph.D in the same subject from the University of Calcutta. He has had a prolonged exposure to professional research for over 18 years in a premier public sector bank of the country where he worked as economist (Chief Officer) in its Economic Research Department. He later taught at the Department of Commerce of the University of Kalyani in West Bengal. He has been teaching in the University of Calcutta for nearly 13 years as Reader in the Department of Commerce. He has to his credit a number of research publications including a book (as co-editor) entitled

"Banking in the 1990s" published by the Himalayan Publishing House, Mumbai.

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Michael John Jones, M.A. (Oxon), FCA, is Professor of Financial Reporting at Cardiff Business School and Chair of the British Accounting Association Financial Accounting and Reporting Special Interest Group. He has published widely on Financial Accounting and Reporting, including Social and Environmental Accounting. He has written three textbooks on Accounting, Financial Accounting and Management Accounting.

Dr. Melkote K. Shivaswamy holds an MBA degree from Miami University, a Master's from the University of Mysore, and a Ph.D from the Indian Institute of Science. He is now an Assiociate Professor Emeritus at Ball State University, Muncie, Indiana (USA). He taught accounting at the same University from 1976 till December, 2006. He had, earlier, taught at Weston College and Miami University in Ohio. He has published extensively in professional journals. He was visiting Fellow at the Sathya Sai Institute of Higher Learning and recipient of a Fulbright Travel Award in 1985. In autumn, 2007, Dr. Shivaswamy served as a Visiting Professor at the University of the Americas, Mexico.

Dr. Bhabatosh Banerjee, M.Com., Ph.D, AICWA is Professor of Commerce and Co-ordinator, MBA in Finance, University of Calcutta, Editor, Indian Accounting Review, and President, Indian Accounting Association Research Foundation. A former Dean of Commerce and Management (1987-89 and 2003-05), Dr. Banerjee has 39 years of post-graduate teaching experience including two years (1995-97) in the US. He is the first recipient of International Educator Award in 2006 from the Indian Accounting Association. His numerous research publications include Contemporary Issues in Accounting Research (ed.) (1991), Accounting Education in India (1994), Regulation of Corporate Accounting and Reporting in India (2002). He has worked in two major research projects funded by the University Grants Commission, New Delhi. He has also been working in the project, Global Convergence of Accounting Standards, funded by DSA (Third Phase).

Ashish Kumar Sana is a Lecturer in the Post Graduate Department of Commerce and Guest Lecturer in the Department of Business Management, University of Calcutta. He is presently working on Insider Trading for Ph.D. Degree from University of Calcutta. He has several publications to his credit. He has written three books, namely, Indian Financial System and Financial

Market Operations, Money and Financial System and Financial Statement Analysis. He has presented papers in national and international conferences. His area of interest is accounting and finance. He is one of the editors of *e-business : The New Business Paradigm in a Knowledge Economy,* a research volume published by the Department of Commerce under UGC-ASIHSS Programme.

Contents

Emerging Dimensions of Corporate Social Responsibility

R. P. Banerjee

Abstract

Corporate Social Responsibility (CSR) has been a buzz-word among the industry circles, particularly the multinational corporations. Companies are being elated or blamed for CSR or the lack of it. Whereas there have been various philosophical ways to look at CSR, number of companies having joined the CSR programmes is really few. Even within in those who have undertaken CSR, some have done that to further their commercial objectives. This paper has highlighted various models and concepts of CSR. It has drawn from the current, recent and the ancient sources to examine the various approaches with respect to CSR. The western and Indian views and practices of CSR have been discussed and conclusions have been drawn in accodance. The Kautilyan perspective, among others has been seen as pivotal in resolveing the macro-positin of CSR.

Key words : Responsibility; Distribution; Ethics; Profit and Environment.

1. Introduction

Over the past one decade, Corporate Social Responsibility (CSR), as an idea has caught the attention of most of the board rooms across the globe. Whether one likes it or not the idea of CSR has got to be discussed and taken positions on. Global institutions, like the International Monetary Fund, the World Bank, the Bank for International Settlement, the UNESCO, various development banks and world's top five hundred multinational corporations as rated by the FORTUNE have adopted their respective policies towards corporate social responsibilities.

CSR has been the focus of attention of corporate chief executives across the globe. Annual public statements of

different corporate houses do always mention about their having observed the social role. Official websites of FORTUNE 500 companies and many other multinational companies in the world make special references to their roles in the respective societies.

2. Review of ideas

What does "Corporate Social Responsibility" mean? Is it an anti-corporate agenda? Something which, like original sin, you can never escape or, what?

CSR is about how companies manage the business processes to produce an overall positive impact on society.

Many authors have raised their sincere concerns over the real intentions of the corporations throughout the world. The profit motive has taken over all other motives and society is sometimes a ground for them to dump their evils of works and results. A good corporation is differentiated from a bad on its attitude towards the society. Many corporations have gone to the extent of mentioning that they are but to serve the societies and profit has been to them an automatic associate to their service to the society. There are two distinctly different schools of thoughts with regard to Corporate Social Responsibility. These are:

School of Profit (SP) and School of Concern & Empowerment (SCE)

The School of Profit thinks that by virtue of its having made some amount of profit, the corporation adds value to the resources of the society and the effect spreads to the entire world for the benefit of the human being in the proportion of their effective efforts. The School of Concern & Empowerment believes that the corporations are actually depriving the societies of their dues yet showing off their faces as good ones by trying to draw virtues through participation in the social process. This school believes that corporations should feel indebted to the societies as the basic resources and support comes from the societies for their survival.

In a widely discussed recent book, *The Corporation: The Pathological Pursuit of Profit and Power*, Joel Baken, Professor of Law at the University of British Columbia, the dangers of the so called 'social' identity of the corporations discussed.

Baken writes about the legally defined mandate of the corporations as "to pursue relentlessly and without exception its own self interest, regardless of the harmful consequences it might cause to others." Baken has explained the evil effects of corporatization as a process and an end in the global system. He believes that the corporations have paced the social virtues out of their pedigree and are actually making continuous endeavours to create a new culture commensurate with the profit making motive of the corporations.

Light of human person has been a kind of bondage to the new cultures. Corporations are trying to govern our lives. They are driving the wheel of the economic and social forces in such a manner that they are in the position to dictate:

What we eat,
What we watch,
What we wear,
Where we work,
Where we do and even, and
What we think.

Human being, through the process of shared actions, has been trying to overcome the evil effects of the institutions created by their fellow members on earth. The will to get out of the trap has been predominant among the thinkers. Different schools have put forward different sets of thoughts and through that a comprehensive view of the subject of CSR has emerged.

3. Conceptual framework

As Friedman (1970) has argued that business performs more effectively when it is unfettered by moral constraints, there is a strong pool of opinion that advocates a business free from the caustic influences of ethics and society can prosper at its own pace. By virtue of its working towards profit, business helps the society the most. Friedman (1970) has argued in his famous article 'the Social Responsibility of Business is to Increase its Profits' published in the *New York Times*, that things go better for everyone, even morally speaking at the end, when it confines its ambitions to the commercial arena.

This argument of Friedman has been squarely contradicted by many. R.H. Tawney (1952) made his observations long ago

and voiced that in the form of a warning, saying, "To argue, in the manner of Machiavelli, that there is one rule for business and another for private life is to open the door to an orgy of unscrupulousness."

Alan Malachowski (2001) has meted out a resolution to the conflict between the society and the business through his monumental edited work on Business Ethics. He has argued "The decision to do the morally correct thing (or at least try to do that) can benefit business organizations in a multiplicity of strategically significant ways. Certainly, in markets which, under various pressures of social change, are increasingly showing signs of sensitivity to ethical factors, such a decision can no longer automatically be deemed a costly decision. By the same token, the ethical evaluation of business activity need no longer be considered a predominantly punitive exercise.

The issue is a debate between the impacts of private good as against public good. Professor Amartya Sen has raised the issues as contrasting with each other and culminating into a position where in the business pursues its logical endeavours to earn square profit yet take proper cognizance of the society and the mother earth. Professor Amartya Sen (2001) has argued, saying, "Even in the production of private commodities, there can be important 'public good' aspect in the production process itself."

While explaining the concept and intricacies of the public good, Professor Sen has drawn from the classic treatment of the same by Professor Paul A. Samuelson (1954). In his explanation of the public good Professor Samuelson has mentioned the effects of the 'combined benefits' of the public good. Based on that explanation, Professor Amartya Sen (2001) has talked about the nuances of the public good as: 'Breathing fresh air or living in an environment free from the spell of epidemics could be identified as the provisions of the public good. While doing the pricing of an output these are hardly taken note of. According to this school, when 'equilibrium prices' emerge, they balance demand with supply for each commodity. In contrast, in the case of public good, the users are - largely or entire - noncompetitive and the system of giving a good to a highest bidder does not have much merit.'

A scientific study conducted by Steven N. Brenner and Earl A. Malender (2001) on a sample of 1227 Harvard Business

Review readers across the globe shows that corporate social responsibility is an essential matter and achievable in the current scenario of the world. The study was conducted across three major issues of which respondent view of corporate social responsibility is a legitimate and achievable goal for business. In the process, the respondents have identified the importance of the customers the most and have ranked concerns for them well ahead of the shareholders and employees. The study had dwelt upon the view of long and short run profits having at all affected by the goals of social responsibility. The study has revealed this point very categorically. Steven N. Brenner and Earl A. Malander (2001) has mentioned in the report:

"1. Social responsibility invariably will mean lower corporate profits in the short run–41% agree, 16% are neutral and 43% disagree.
2. Social responsibility invariably will mean higher corporate profits in the long run–43% agree, 22% are neutral and 36% disagree."

A somewhat similar study on the conscience of the corporate executives was done by others. It has been found by many research groups including the ones mentioned already that there has been lot of mistrust on the corporate initiatives towards social responsibility. Dominant feeling of the people on this matter is that corporate social responsibility is more a Thetoric than a reality. It has to be acceptable to the different stakeholders of the corporation and, at the same time, trust worthy to the public at large. Abert Z. Carr (1970) puts it as: "the socially aware executive must show convincingly a net short-term or long-term economic advantage to the corporation in offer to gain acceptance for any socially responsible reassure he might propose."

One of the essential reasons behind the suspicion is that the corporate virtue is considered by many doing philanthropy. It is not the money of the executives or the management but that of the owners are spent for philanthropy, if any. It is like Robin Hood after having stolen money from the rich distributing the same to the poor or Devi Choudhurani having looted the rich and spreading the resources to the deserving. Still the act of stealing or looting remains as moral hazards. If one has to do philanthropy one's own earned money or rightful money has to involve in that. Otherwise, it may create recurring problems for the sustainability of the enterprises.

One way to look at this problem is to classify the different types of corporate social responsibilities into matrix segmentation (Table 1).

Table 1
CSR Types

	Enhances Social Welfare	Reduces Social Welfare
Enhances Profit	Good Management	Pernicious CSR
Reduces Profit	Borrowed Virtue	Delusional CSR

Source: The Economist, January 22nd 2005, page 54/6.

Good management is one that takes care of profit and social welfare at the same time. It is a case of borrowed virtue if the company does not have the capacity to amass adequate resources for the virtuous work and does it on others money. Aggressive profit making without the concern for the society and environments make the function pernicious CSR.

Corporation in the social framework

Within the official framework, a corporation, or in some jurisdictions a company, forms a legal, artificial entity with or without shareholders. Lord Haldane had said in his classic statement on the issue of corporation in the famous case of Lennard's Carrying Co. Ltd. V. Asiatic Petroleum Co. Ltd. [1915], (Wikipedia, the free encyclopedia):

> "My Lords, a corporation is an abstraction. It has no mind of its own any more than it has a body of its own; its active and directing will must consequently be sought in the person of somebody who is really the directing mind and will of the corporation, the very ego and centre of the personality of the corporation."

According to this encyclopedic explanation, humans, trusts, other corporations or other legal entities can hold shares of a corporation. When no stakeholders exist, a corporation may exist as a "non-stock corporation", a "membership corporation", or similar - this second type of corporation counts as a non-

profit. In either category, the corporation comprises a collective of individuals with a distinct legal status and with special privileges not vouchsafed to ordinary unincorporated businesses, to voluntary organizations, or to groups of individuals. Corporations receive a charter from a state, and become regulated by the laws enacted by that state. The law of the state in which a corporation operates (if different from the state in which it originates) will generally regulate its activities.

Question stands: is a corporation liable to what the society deserves and wants? The answer could be varied. Whether or not, it is a perennial problem to those who have got a bit of concern for the society. Profit making, in the face of the aggressive and cut-throat competition, has taken an ultimate position of concentrating just on the facts of the ends and sometimes at the cost of the virtuous means. Corporations have paved the way to dominate and dictate terms across some pivotal aspirations created by them. Corporations have tried to replace the God and take the position of Gods themselves. They are dictating us on our modes of life, our thoughts, our values and our relations even. Individuals are increasingly surrounded by the culture, iconography and ideology of the corporations.

4. New monarchies

It is needed a situation where we are increasingly bonded by the emergence of new monarchies. Yes, the corporations across the globe have occupied these positions. They have overwhelmed the green mind with their elaborate displays, magnificent structures, glorifying styles and continuous pampering of their positions by the hired intellects. They want to make the noble human voice a dwarf in their proportions. Corporations have been able to create situations where they are in a commanding height to dictate terms on the governments and the societies. More important is that they have penetrated the inner realms of the young minds and have stolen away the keys to superior thoughts, self-giving ideas and ideals. They have been, so far, successful in corporatizing the ideas, ideals and dreams of the young minds. New generations have started putting themselves in the shoes of the corporate characters.

Humans have not accepted this fate fully. As the corporate wheels have collaborated to grind the noble sense and the noble

voices of the human being, the societies across the world have started raising caustic comments on them. Mistrust has generated in the minds of the people in the society about the corporate intents. When the corporations talk about their roles in the societies and gives a fabulous list thereof, the obvious response of mistrust creeps in the minds of people. Demands for accountability from an increasingly anxious public becomes unavoidable. Corporations have to respond to this or else face a situation of being left over.

The question of providing public good through the levers of private achievements was strongly advocated by Adam Smith in his classic work, 'Wealth of Nations' very frequently quoted lines of which read as follows:

> "Every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how he is promoting it---he intends only his own gains, and he is in this, as in any other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it.
>
> It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages."

Smith has advocated for benevolence to the society elsewhere in his theory of the moral sentiments. The concept that invisible hand sets right the ill effects of the individual pursuits of self interest maintains that self interest inadvertently serves the cause of public good. From this perspective it can be said that even if the corporations are busy in the aggressive pursuits of their self interest, through maximization of profits, they are actually satisfying the demands for the public good. Private search for profit, therefore, does advance the public interest.

Even though this point has got some merit, it can not be ruled out that corporations, in their pursuit to earn profits on a competitive ladder, the environment and the society are really

at stake and stand incorrigible till it becomes a conscious choice of the corporations across the globe to work towards CSR. There has been a good amount of response now on this from various organizations. World Business Council for Sustainable Development is one such organization which has made CSR a prime force to foster the needs of the society through structure actions and cooperation on a global scale. 175 multinational corporations of the world have joined the forum to forward the case of CSR. Important companies in the movement have been Shell, ABB, Dow Chemicals, Ford Motors, General Motors, Procter & Gamble, Time Warner and many other multinational corporations. Royal Dutch / Shell has taken a lead over others in terms of having instituted a foundation on its own to forward the cause of global environment, poverty and social support mechanisms. Sir Mark Moody-Stuart mentions the reason behind the company's intention to embrace CSR as its genuine concern for the globe. He maintains, "My colleagues and I on the committee of managing directors are totally committed to a business strategy that generates profits while contributing to the well-being of the planet and its people."

In order to achieve this, Shell has to be busy in things directly contributing to the gains of the society rather than just devoting to make profit for its own and satisfy different stakeholders. The World Business Council for Sustainable Development has made it clear in its official site that:

> "Although the rationale for the very existence of business at law and in other respects is to generate acceptable returns for its shareholders and investors, business and business leaders have, over the centuries, made significant contributions to the societies of which they form part."

Companies have viewed CSR from different perspectives. Employees of the Xerox Corporation have recently taken a decision to go for the service of the society supported by the company. Some employees of Xerox Corporation will put their business savvy to work and start as full-time, paid volunteers at non-profit organizations that counsel grieving children, provide food and household items for the economically distressed, and serve families affected with multiple sclerosis. The employees have been granted six-month sabbaticals from Xerox as part of the company's 2005 Social Service Leave Program (SSLP).

5. Indian way : Pancharin (five-fold indebtedness)

Generally, the initiatives of the west-dominated corporations have been mostly teleological in their approaches. This means, these views are governed by the needs of the enterprises to project their respective images as virtuous organizations. To take an example of a company selling baby food, it has been found that the company has consistently focused on the baby care ideologies through its credo than showing the facts of its sales and revenues. A recent Indian example of the soft-drinks having found mixed with insecticides and having been rejected by the masses for a long while. The revival for these companies have been through massive amount of social activities through participations and promoting games, sports, social events, cultural activities and price offers. The twin edge of social support and lower price offers have earned them clear mileage in terms of recapturing the previous market shares.

Teleological way of supporting the societies has been questioned by the proponents of normative views. It is said that corporate social responsibility proves genuine if it is taken up as a piece of duty than as a consequential effort. Duty-orientation or the 'deontological' view of the society makes the corporation genuinely believe in what they are committing themselves to. India has contributed immensely to this thought.

The classical Indian view has offered a unique philosophy for the social responsibility of a person or a system. Human being is continuously drawing resources from the universal systems. Service to the society and the earth is not merely the gestures of the virtuous intents of the persons or corporations, it is but the solemn duty of them to do so. As every person, and for that matter each organization, is on the recipient's side and as honest entity, should feel indebted. The moment one is born, he gets the light of the earth and immense air for survival. We get the plenty of the pool of knowledge which is contribution of the heavenly bodies. This should make an honest man indebted to the Gods (*deva*) and Sages (*rishi*). Man is bound by the immense contributions from their parents. Therefore, an honest man should feel indebted to the parents and the ancestry (*pitri*) for the kind of being he is given the seeding of. Man, again, survives on the contributions from the humanity at large. What we eat, what we put on, what we live on are the sum total of contributions of people unknown to us.

We should feel indebted to them. We are constantly being served by the plant kingdom and the animals, subhuman species. We should feel indebted to them.

It is not our deliberate choice for a gesture or a token of philosophical inclination that we should feel indebted for the society, be it the platform of a family or that of a company. Indian view puts this in the essential agenda for a person and an organization to share required amount of their resources with the society. The theory of five-fold debt system as propounded by the Upanishads put a clear challenge before the corporate world making them feel that doing something for the society is not an optional choice for them, rather, it is an essential element of the corporate practice and activity. There five-fold debts are:

- DEVA RIN – Indebtedness towards the Gods or universal objects
- RISHI RIN – Indebtedness towards the seers and sages
- PITRI RIN – Indebtedness towards the parents and the ancestry
- NRI RIN – Indebtedness towards the human beings at large
- BHUTA RIN – Indebtedness towards animals, plants and the earth.

6. Kautilya's view of providing public good

Providing public good is at the core of Kautilyan economic philosophy. According to Kautilya, any public institution should basically satisfy the imperatives of public good before fulfilling its private objectives. Kautilya addressed the issue of CSR from macro point of view.

Kautilya has propounded the view of 'economy by the masses and for the masses'. He believes that spiritual practice is the prelude to the economic development. Poverty can not be removed if spirituality is ignored. A spiritual person can only understand the problems of others and gets the required inspiration from within to take part in the process of solving all the economic evils. He has talked about an ideal place for the domicile of the masses and finds a leader has to be a person with full dedication for the masses of the country/world.

Kautilya describes the ideal 'janapada', the place of domiciles of the collectives (as edited by Ganapati Shastri and translated by R. Shamasastry, Mysore, 1954):

> "Free from swamps, salt impregnated lands, uneven lands... well furnished with waterways and roads, with trade goods of great values and varieties, able to bear the army and the taxes... with peasants who are dutiful, lords, that are childish, a population mostly of the lower castes, can with men who are loyal and clean-lived. Such is the perfection of the Janapada..."

In the case of conflict between the momental and the sacred, Kautilya sets the priority to support the eternal principles or the long-term views, as:

> "Whenever there is a disagreement between history and sacred law or between evidence and the sacred law, then the matter shall be settled in accordance with sacred law. But whenever sacred law is in conflict with rational law, then reason shall be held authoritative."

Kautilya wanted to form a powerful and benevolent bureaucracy to safeguard to eternal interest against the cross views of the short terms. The idea of all powerful bureaucracy supervising the trade and administration with a righteous view was later supported by King Asoka. Asoka's belief turned into a safety net for the weaker section of the society. He desired that all inanimate beings should have security, self control, peace of mind and joyousness. Asoka's later belief turned into a pleasure in patience and gentleness and the conquest not by arms but by piety. He thought about the joy in the co-operative effort and the retreat for the vanquished.

Kautilya puts highest emphasis on the benevolence for the people over the pleasures and happiness of the ruler. He says:

> *"Praja sukhe sukham rajnam prajanam cha hite hitam*
> *Na atma priyam hitam rajnam*
> *Prajanam tu priyam hitam." (Arthashastra of Kautilya, 1/19/34)"*

> [The happiness and wellbeing of a king lies in the happiness and wellbeing of the people of the country. King should not find the personal concerns more important than the concerns for the masses.]

Kautilya puts highest value on the concepts and practice of distributive justice. He believes that wealth belongs to the divine and should serve the king and masses in the right proportion. Whatever is essential for the masses should be set aside for them with the state having attributed its due share for the best interest of the state and the continuity of the legacy. Kautilya believes that in order to accomplish this, the leader and the people both should be trained in the knowledge of the Vedas. Knowledge and realization of the Vedas has been coined as one of the most important aspects of the management of the economy. Spirituality brings in the condition of 'cooperation' in economic management. Cooperation is the most important in the built up of an economy. Without cooperation and participation an economy can not prove healthy to people. Socialist system and capitalist system both lack in this dimension. In the socialist system, the economic management of a country ultimately goes in the hands of a dominant few who do it to the best interest of the dominating minority. In the capitalist system, the inherent principle of profit maximization serves the big money with the gross money to the best interest of again the elites (by capital, knowledge or dominance). Kautilya has resolved this dilemma by putting spiritual concern before the cart of economic management. A person managing economy or a group of people engaged in the economic activities should be drenched in the spiritual environment so that the attitude turns into giving and not grabbing. This goes to the best concern of the less privileged in any economy.

7. Triple Bottom Lines

Profit, environment and social justice are the three bottom lines considered by the leaders of the United Nations, European Union and Japan. Historically, profit has received the honour of the prime focus of business. 'Profit is eternal' - has been the sentiments among the business lords go across the globe. Corporations do charitable activities to promote their gains in a different way. They want to make money out of everything. Money, money, and money has been the motive of most of the business leaders of the world. Any support provided to the society has to stretch some indirect gain, at least. This motive has been condemned by many. World Bank has identified social

backwardness as a danger to peace and sustainability of the world.

James D. Wolfensohn, then president of the World Bank Group, in his closing remark at the Sanghai Conference on 'Scaling up Poverty Reduction' warned the global community of the dangers of persisting poverty. His warning goes a long way to hit at the back bone of the corporate-commerce combine. Wolfensohn (Shanghai, China, May 27 2004) had said:

> "We must deal with the question of social equity and social justice. Because without dealing with that question of poverty, there can't be any peace, and $900 billion being spent on military expenditure, $300 billion being spent on agricultural subsidies, and $50 or $60 billion being spent on overseas development assistance is one of the absurdities that we have to change.
>
> And so I think all of us have to go out of here with a certain missionary zeal to try and remind people that poverty and the environment in which we live are the real challenges for peace and that we need to give them priority.
>
> And the second, and last, thing I'd like to say is that we have talked about economics, we have talked about advances that must be made for social justice, and we've talked about steps that need to be taken in empowerment and in the methodologies that we can use to scale up."

In his convocation speech at the University of Pennsylvania School of Arts and Sciences (Philadelphia, P.A. March 27 2003), James D. Wolfensohn, President of the World Bank Group, had cautioned the world of the dangers of inequality and lack of social support to the underprivileged section of the people. Wolfensohn said:

> "You start with the planet which has got six billion people on it, five billion of whom live in developing countries. You start with a planet in which there is a global GDP of something over $31 trilion and in which 80 percent of the wealth goes to the 15 per cent of the people that live in the developed world and 20 percent of the wealth goes to the 85 percent of the people that live in the developing world.
>
> So, we start with an imbalance in terms of who has the resources, and it can be further exemplified by simply saying that of the six billion people on the planet, three

billion of them live under \$2 a day and a billion 200 million of them live under \$1 per day.

I could blind you with statistics, but let me say simply that a billion of the people don't have access to clean water, a couple of billion do not have access to sanitation; and when you go down the line as to access to health and education and literacy and so on, the results are what you would expect as a consequence of inadequate economic development."

Delivering his inaugural address at the Third United National Conference on the Least Developed Countries on the issue of 'A new Compact to meet the Challenge of Global Poverty' (Brussels, Belgium, May 14 2001), Mr. Wolfensohn said that the current level of aids to the least developed countries is not adequate, it is rather far below the agreed level. He said that the gap is dangerous to those countries and the donors as well. According to him:

"Current levels of aid, at 0.22 percent of annual GDP, fall far below the 0.7 percent target OECD countries pledged to meet. It is ironic that when African leaders are putting the right policies in place and showing results, overseas aid to Africa has fallen from \$34 per person in 1990 to \$18 per person in 1998.

It is time for developed country governments and major donors to put an end to this tragic decline in assistance. Development assistance is not a handout, but an investment in global peace and prosperity, health and security. It is time that rich countries recognized it as such; that recognition could turn the tide toward achieving the international development goals.

If the aid target of 0.7 percent of GDP, it would make a difference of \$100 billion a year. It could make a profound difference in the number of people who die each year of preventable or treatable diseases. It is the right thing to do, for LDCs' for donor countries and for the world. Some advanced countries have met their ODA commitments of 0.7 percent of GDP; the rest must now step up and meet theirs."

Mr. James D. Wolfensohn has put across the view of macro-CSR. The vastness of the problems of poverty, inequality, ill-health, malnutrition, illiteracy and lack of the hopes for

a good life has made the world system vulnerable to the threats of disruption and disintegrations. Wolfensohn wants the remedial measures from the macro perspective through a set of actions which are participative and are destined to make the lives of the less privileged better off. The micro correction involving CSR starts with the understanding by the corporation of the ramifications of corporate philanthropy. CSR as a genuine motive force for any corporation can do a lot to create a win-win situation wherein through the actions around CSR the company wins its first bottom line, the profit, whereas the society and earth gets the share of proper care.

8. Against CSR

Some people argue that CSR exploits the resources of the enterprise which are earned incomes of others. Therefore, it is a question of right and appropriation that they do it when there is a deserving necessity from the company and the society as well.

Businesses are owned by their shareholders - any money they spend on so-called social responsibility is effectively taken away from those shareholders who can, after all, decide for themselves if they want to give to charity.

9. Financial Times CSR survey (2004)

A recent survey (2004) of the CSR with respect to the investments in the financial markets, done by the Financial Times, UK shows the presence of compulsions the companies are faced with for the CSR responsibilities.

Richard Coope, Head of CSR Practice at CTN said:

> "The reputation of companies is directly linked to the credibility and effectiveness of CSR reports, very few are making any real effort to engage people in what they are trying to achieve in this important area of activity."

Executive opinions of the companies vary widely even when the companies adopt official position favouring the practices of CSR. The Financial Times survey has found executives telling:

> "Our company (Most Respected Companies like GE, MS telling their position with respect to CSR) is too busy surviving hard times to do this. We can't afford to take our eye off the ball - we have to focus on core business."

This shows the lack of homogeneity among people in the corporation on the issues of CSR.

10. Global initiatives

Global initiatives are on the rise as some organizations are very much visible on the issues and applications of CSR. It is indeed a situation where the society is in a position to judge some aspects of the CSR that involves them. Important organizations are CSR Network (CSRN), Global Reporting Initiative (GRI), Coalition for Environmentally Responsible Economies (CRES) and many others.

CSR Network recently released Material World: The 2003 Benchmark Survey Report, a detailed research project evaluating global reporting among the 100 largest companies in the world, by revenue, as listed in the Fortune 500. The concept results from the simple proposition that global economic actors have global environmental and social impacts and should be encouraged to produce global, as opposed to national, environmental and social reports. For the first time this year the scope of the Survey has been expanded to include greater detail on global social and sustainability reporting as well as environmental reporting.

Positions that these companies do have with regard to the society and the environment are spelled out in the reports. The reports create an effective background to carry forward the agenda of global environmental and social corrections.

11. GRI–the will to succeed is not enough

The Global Reporting Initiative (GRI) was initially convened by the Coalition for Environmentally Responsible Economics (CERES)

The GRI has developed a set of core metrics for measuring the environmental, social and economic performance vis-à-vis CSR.

12. Business respect–CSR

The reporting initiatives have really opened up the lids over eyes and identified certain basic issues that societies are confronted with while dealing with organizations. In the absence of the self-motivated understanding of the pressing

need for CSR, companies are susceptible to the needs and checks of the societies. To take some examples of the consequences of being indifferent to the social causes or going against them, we may mention below the recent cases at different parts of the world:

Europe : Chemical companies (Akzo Nobel, Atofina and Hoechst) fined for illegal cartel.

South Korea : Probe launched over chemical poisoning in sweatshop. Kraft has been forced to curb advertising to children below 12 year age.

Australia : James Hardie to pay $1.5 bn over asbestos to compensate for the harms caused to the society.

US : Pfizer ends advertising of Celebrex following heart concerns.

Japan : NHK (public service broadcaster) aims to restore trust following scandals.

CSR has been identified by many as the concern for the long-term as well. Sustainable development is the outcome of long-term initiatives of companies. The other face of CSR movement has been the movement for sustainable development through various initiatives. Here are certain initiatives for the sustainable developments.

13. UK Co-Op Bank saluted in new CSR survey

A recent Financial Times survey puts the UK Co-operative Bank as one of the ten most respected brands in the world judging from the point of view of Corporate Social Responsibility.

In a poll of 150 media commentators and non-governmental organizations (NGOs) from around the world, the bank was rated as ninth for CSR. In a special Financial Times supplement (FT, 22nd November 2004), entitled The World's Most Respected Companies, stated: "The bank introduced its ethical policy in 1992 in line with its own history as part of the Co-operative Movement and it markets its commitment to responsible behaviour as a unique selling point, setting it apart from other financial institutions. For instance, it will not invest in any government or business that fails to uphold human rights, or any business whole links to oppressive regimes are a cause of

concern. Its customers also have a say in setting its ethical policies. It is yet more evidence that the bank's approach to corporate social responsibility is now universally recognized as being cutting edge."

New directions of the CSR surveys are towards the policies of sustainable developments. Broadly, these policies include the following considerations:

- Environmental Policies
- Emerging Environmental Groups
- Shareholder Resolution Campaigns
- Standardization
- Global Sullivan Principle.

These are briefly discussed:

Environmental policies

In order to fit in the CSR standards, companies have to design suitable framework for their policies and execution methods keeping in mind that the designs of the environmental policies impact their acceptability among the consumers and in the markets. Environmental organizations, such as Conservation International, Green Peace, World Wildlife Fund & World Resources Institute, Environmental Justice Groups.

New and emerging environmental issues

Issues that are getting highlighted during the recent pasts are mostly as follows:

Climate Change as a result of the environmental hazards put forward by the companies through their manufacturing, distribution and consumption process. Companies are more encouraged to adopt the following policies:

- Transparency - Performance Measurement & Reporting
- Developing Voluntary Industry Guidelines
- Product Take back
- Forest Products, Fresh Water & Genetically Modified Organism.

Shareholder resolution campaign

U.S. based Interfaith Center on Corporate Responsibility (ICCR) launched a shareholder resolution campaign to force companies to report liabilities from greenhouse gas emissions. This campaign has a tremendous amount of impact on the

social and institutional acceptability of the corporations. On one hand, it is encouraging the types and kinds of investments, on the other, it is implying the consumers to create and encourage market for environmental-friendly products.

External standards

External standards have become widely acceptable across the globe as these provide substantial support towards incorporating the social and environmental agenda yet maintaining the level of profitability and sustainability.

- Business Charter for Sustainable Development (BCSD)
- International Organization for Standardization (ISO) 14000
- Eco-Management and Audit Scheme (EMAS)
- The CERES Principles (CERESP)
- The United Nations Global Compact (UNGC)

Each of these standards is unique in its scope and role. Companies develop trustworthiness through participation in each of them. Standards create global acceptability for the companies to various communities associated with them.

Global sullivan principles

The scope of Global Sullivan Principles has been basically core concern of people in the world. They include:

- Health and safety, protecting human health, the environment, and sustainable development
- Endorsing companies and organizations are asked to take part in an annual reporting process to document and share their experiences in bringing social responsibility to life.

Natural step framework

This framework describes core guiding principles for moving toward sustainability. It is intended to assist decision-makers by providing a pragmatic analytical tool for understanding and integrating sustainability principles into complex organizations. It has three main components, one of which describes the "system conditions" of a sustainable society.

The system condition tries to asses the reserves of resources necessary for sustainability of the earth system. Depletion of the reserves creates scarcity, raises prices and

apparently throws the world into the dangers of losing the charms of life. However, the creative faculty of human being does not halt in the face of the felt scarcity. Creativity gets enhanced. Larger slice of the dormant stock of critical reserves of the earth gets unfolded. Human creativity goes to the extent of finding out hidden treasures of the global reserves. A close look at the earth's inventory of copper and oil are but a clear indicator of that (Table 2).

Table 2
Estimates of the earth's stock of some critical items

Item	Reserve Estimate in 1970	Consumed during 1970-2000	Reserve estimates during 2000	Comments
Copper (million tones)	280	270	340	New replacement item : Fibre-optics
Oil (billion barrels)	580	690	1,050	Nuclear and other replacement sources

The study as shown above proves the fact that human progress is a function of the necessity and does not stop at the barriers of the perils and fears.

14. Conclusion : suggestive actions for implementation

The analysis shows that companies have varied positions in terms of the policies and executions of CSR. Awareness is prevalent among the companies to identify CSR as an important element of their corporate activity. Some have accepted the point that by virtue of making good profit they are providing public good; while others believe that direct and visible assistance and support provided to the society can only serve the cause of the society. Therefore, it is their duty to support the society from whatever perspective they can.

Sustainability demands a clear process and the path to achieve the ends. Certain steps may be identified to create favourable scenario towards implementing the environmental agenda and creating a general awareness for the implementation of CSR. These are as follows:

- Conduct an environmental inventory with a long-term perspective;
- Make the business case vis-à-vis internal and external parameters;
- Create an environmental policy with due regard to the macro concerns;
- Create a management team dedicated to the cause of business and society;
- Adopt a management structure suited to the emerging needs;
- Create an action plan incorporating the constraints, and
- Facilitate widespread employee involvement and monitor.

It is believed, in the long run, it will be the benefits of the corporations to have given proper focus and attention to the causes of the society. A company having got closer association with the society through promulgation of socially beneficial activities wins the heart of the masses and thereby wins the market. The second concern is that with the upper segments (adequate purchasing power) of the global markets increasingly becoming saturated, the need ·to broad base the markets has become a burning one. In order to achieve this, the economic conditions of the people have to get upward transformation making them competent to join the race of consumption of their chosen products and services. Here again, arises the issue of corporate participation in the social process. If the companies deny this responsibility or fail to do that, they may face a time bomb of lack of adequate market capacity bursting on their face in future. Institutional initiatives drenched in the genuine belief in the social responsibility can get companies positive results in this regard.

Indian view of the social and universal responsibility of man can surely work with the best feasibility. Once it is crafted into the belief system of people, it becomes easier for them to develop action plans and do their implementation. Indian view of pancharin has got that potentiality to drench the companies with the continuous flavours of corporate social responsibility.

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Corporate Social Responsibility and Sustainable Development

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Abstract

Traditionally, Corporate Social Responsibility (CSR) is considered to lie in the domain of ethics–an issue peripheral to the core functional areas of business and industry. Sustainable development, on the other hand, is the bastion of hard-core economists dabbling with notions of growth and development in the language of models and theories. This paper seeks to establish a link between the two issues–CSR and sustainable development. The paper is divided into three sections. The first part of the paper looks at the growing importance of CSR in the context of its basic rationale and then goes on to question the very perception of CSR from different perspectives. The section concludes with a study of the ideal corporate strategy in the context of CSR. The second section of the paper examines the issue of sustainable development and justifies how CSR contributes to sustainable development. This link between the two concepts is sought to be established in the form of an economic model of corporate objective. As part of this model of resource optimization, the potential application of CSR in the realm of the Indian public sector is briefly examined. In the third and final section, the tangible benefits of CSR are studied with the help of a few examples of social responsibility leading to corporate growth.

Key words : Corporate Social Responsibility (CSR); CSR Strategy; Contemporaneous; Intertemporal; Social Responsibility Cost.

1. Introduction

Gandhiji viewed the ownership of capital as a form of trusteeship wherein society provides capitalists with resources to manage on behalf of society in general. This concept is being

expressed today in the form of social responsibility of business and industry. The current concept of CSR covers a wide range of issues that can be linked to the fabric of sustainable development. The basic rationale is that business cannot thrive at the cost of the very society from which it derives its resources - in fact, its very sustenance. Business has realized that a company can and should play a major role in the community within which it operates. Other than money, employees are encouraged to commit time to social service projects. Companies feel that this creates a sense of individual and collective development as well as pride in the company.

The World Summit on Sustainable Development (WSSD) held in Johannesburg in September 2002 was largely attended by CEOs of corporate organizations from all over the world. In fact, there were more leaders of business and industry present in Johannesburg than leaders of government. From the discussions that took place in the WSSD there emerged a new form of partnership. The proposed projects were distinct from typical government and NGO dominated development activities, in that they involved various coalitions of businesses, governments, multilateral organizations, NGOs, research and academia coming together to work on projects and activities that promote sustainable development by engaging some component of society at large.

Hence, companies have realized, or have been compelled to realize, that they do not function in a vacuum. This has been expressed by R.W. Johnson, founder of Johnson & Johnson: "Institutions, both public and private, exist because the people want them, believe in them, or at least are willing to tolerate them. The day has passed when business was a private matter --if it really was. In a business society, every act of business has social consequences and may arouse public interest. Every time business hires, builds, sells or buys, it is acting for the people as well as for itself, and it must accept full responsibility for its acts."

2. Implication of CSR—The Western model of corporate duty

Traditional American models of management, on which Indian organizations are based, regard corporate social responsibility as an additional function, not necessarily linked to the company's core function. Hence, organizations might produce

goods which may or may not have relevance to the particular socio-economic context; they might engage in cut-throat competition with other organizations; they may pollute the environment - the physical environment through their emissions and the social environment through their advertisements. But ultimately, they will use part of the profits to build a few schools and parks, donate to some charity, get tax exemptions as a reward and then pat themselves on the back as the harbingers of corporate social responsibility. In many instances, corporate social responsibility is used as a smokescreen for greed and profit. At most, it is a function which the company condescends to engage in for the sake of society, expending time and money for a "noble" cause.

3. CSR—Indian model of corporate growth

In the Indian perspective, however, corporate social responsibility is inherent in the company's core function–the raison d'etre of the company. The company exists to serve society. The concept of serving society comes first, profits follow. Here we are referring not to Indian management based on American models, as is unfortunately the case in most organizations, but to Indian management based on the ancient Indian texts and scriptures. Social responsibility is not an afterthought but the very root and purpose of the organization.

Will Maruti-800 sell after 20 years? Given the current market scenario, it is highly uncertain. But the Bhagavad-Gita is still selling after thousands of years and in all the major languages of the world. So, Sri Krishna is a better manager than most of our professional managers of today. The Bhagavad-Gita tries to solve the problems of society. The problems are not temporary, not constrained by the boundaries of time and space– hence the solutions have universal appeal irrespective of time and space.

This attitude of solving social problems rather than satisfying needs has been adopted by some highly successful companies. Merck, the pharmaceutical giant, tries to solve a major problem faced by people–to find cure for diseases that are widespread. Hence Merck concentrates its research and development in areas such as cancer, cardiovascular, arthritis, Alzheimer's disease, osteoporosis, AIDS etc. Hindustan Machine Tools owed its success in the 1960s and 70s to its focus

on contributing to national priorities by giving thrust to rural markets, regional diffusion of manufacturing facilities, revival of sick units and cooperating with the government in the economic programme of self-reliance. Excel Industries adopted a similar attitude of problem solving with highly successful results. Indian farmers were worried that chemical fertilizers would erode the soil. Excel did research on natural manure and produced microbe-treated manures produced from garbage. Hence, Excel solved two problems–tackling pollution caused by garbage and providing low-cost natural manure.

Companies cannot grow at the cost of society–they can only grow with society. For true growth, the companies must integrate their own interests with the interests of society. As the scriptures say, *Atmano-mokshartham jagat-hitaya*–my salvation lies in the welfare of the world. Society will show interest in a company when the company will be able to solve its problems better than others. This will return better dividends for all stakeholders.

The purpose of any work should ideally be to solve the problems of others. This will help the doer, be it a corporation or an individual, to gain social attractiveness. To adopt this strategy, a company must understand the problems of society, study its own strengths and resources, choose a problem which it can solve with its own resources, and offer the solution to the target market. The problems chosen should not be superficial in nature but deep social problems. Technical, financial, material or management problems are visible on the surface; but these are manifestations of social problems which may not be apparently visible. Most companies address a superficial problem but fail to address the main issue.

4. Need for a CSR strategy

Indian management talks of *Shreyas-Preyas-Swadharma*. A company's starting point must be mission (*Shreyas*) or social responsibility. The goals of the company (*Preyas*) must be compatible with the Shreyas. The goals must be achieved by emphasis on the company's special strength (*Swadharma*). *Shreyas, Preyas and Swadharma* must be integrated into effective planning.

For a business, the most important factors are finding out society's problems and identifying one's own strength or

resources with which to address those problems. In the Bhagavad-Gita, at the start of the Kurukshetra War, Sri Krishna placed his chariot between the Pandava and Kaurava armies and asked Arjuna to look at the two sides. The significance for business is to first study the positive and negative elements in any situation and use the former to overcome the latter. Failure in business is due to several reasons including a lack of courage, lack of a clear mind, lack of ambition, a tendency to compete rather than co-operate and a focus on profit making rather than serving society. A realization that salvation lies in service, or *'Atmano mokshartha jagat hitaya'*, will allow the organization to grow. When the organization seeks to serve people, people will come to the organization, leading to growth.

Hence, the corporate strategy should focus on the following issues:

- What should be our corporate mission–solving problems of society?
- How do we gain a competitive edge–by offering a qualitatively new solution?
- How do we deliver results–by empowering our workers?
- How do we cope with change–by focusing on acute or emerging problems?

Different organizations have different styles of functioning. In this context, organizations can be categorized into 4 different models - the parasite model, the militant model, the martyr model and the ideal model. A parasite thrives at the expense of the host. An organization which grows at the expense of others, be it the customers, or competitors, or society at large, is basically a parasite harming others. Ultimately, when it harms its host, the parasite itself loses the source of its own sustenance. The militant model typifies those organizations which, like militants, kill others and ultimately kill themselves. The world of cut-throat competition abounds in organizations lunging at each others' throats which ultimately leads to their collapse. The martyr model fails to survive and is crushed by competition. The ideal model was offered by Swami Vivekananda. According to Swamiji's "Parallelogram of Forces", the purpose of work is to grow and help others to grow. This brings us back to our concept of sustainable development or, in the organizational context, corporate social responsibility.

5. Sustainable Development

World Commission on Environment and Development (1987) has outlined sustainable development as 'development that meets the needs of the present generation without compromising the ability of the future generations to meet their own needs'. At the outset it underscores two important dimensions: firstly, it is an intertemporal issue encompassing several time periods over a future time horizon, and secondly, it is essentially a stochastic problem, where even when we may be able to specify the needs of the present generation (a multifaceted problem with obvious estimation problems), the needs of a series (?) of future generations and their economic abilities to meet them are (as of now) certainly not known with any acceptable degree of accuracy; furthermore abilities to meet them (at successive periods) certainly have an appreciable degree of interdependency. When there is a considerable extent of underdevelopment (outright poverty, depravation) plaguing a significant cross-section of the current world population, it will be difficult to arrive at any consensus to approach the issue from ethical angles of intergenerational equity.

6. Theoretical framework

The issue of corporate social responsibility can be viewed from two different, yet related, angles–(a) a *contemporaneous* solution and (b) an *intertemporal* solution to a problem involving profit maximization and optimization of resource utilization.

(a) Contemporaneous angle

The constrained maximization / optimization problem lies in maximizing a general corporate objective function subject to a set of constraints. The objective function to be maximized is a linear combination of profits and other material maximands. The constraints will be multiple. Input prices and the input organization will act as constraints to inputs. Technology will be the constraint for production. Another constraint will lie in a bottleneck for availability of physical as well as financial capital. The given expenses to be incurred for discharging social responsibility will be yet another major constraint. Combining these parameters in a model should give us a contemporaneous solution for a given time period.

In this context, it may be mentioned that the common perception is that profit and social responsibility cannot go hand in hand. That this is a misconception is proved by the performance of India's government sector. Jawaharlal Nehru maintained that profit was a dirty word for the public sector. Yet we find that the public sector, while apparently shunning profit, failed to carry out its task of social responsibility. The public sector looked after the interests of its employees, but not those of its customers. Hence the Indian public sector failed to function profitably and at the same time failed to carry out its social responsibilities of serving the customer.

The thrust of public administration in India today is towards building up the infrastructure necessary for sustainable growth and development. Public investment in this sphere is gaining significance. The focus is on social and environmental issues including community health, communication network, roads and bridges, education, poverty alleviation schemes etc. Government projects administered by public officials have as their objective the enhancement of social welfare. This lies beyond the scope of ordinary optimization considerations in business organizations. The required standards of environment, health, nutrition, job creation (even against the current concept of downsizing for the sake of efficiency) etc. have to be maintained in the context of social welfare. Hence, the investment-efficiency criterion for social service projects are different from, and a definite compromise on, the regular optimization and efficiency resultants.

However, efficiency considerations cannot be sacrificed at the altar of social welfare considerations. There must be a synthesis of efficiency and social welfare, of practicability and sustainability. In view of the scarce resources available for investment, even in the sphere of infrastructure, there is a need to ensure optimal utilization of the same, subject to social welfare considerations. Hence, the application of optimization objectives in the creation and delivery of social service projects is both highly desirable and recommended.

(b) Intertemporal angle

The other approach is to construct the problem in an intertemporal context which is what we have described earlier as the focal areas for corporate strategy, i.e. corporate mission of solving social problems, gaining a competitive edge by

offering a qualitatively new solution, delivering results by making the employees identify with the company and coping with change by focusing on emerging problems. In this approach, corporate profits is seen to be a function of revenue and costs, the latter including the costs in a given perception of social responsibility in an intertemporal context.

$$\Pi(t) = f[PxQ_{(t)} \ \& \ C(Q_{(t)})]$$

Where:

$\Pi_{(t)}$=Corporate profits in time 't' (corporate appropriations in time 't').

$PxQ_{(t)}$=Revenue from selling Quantity Q in time 't'.

$C(Q_{(t)})$=Cost of producing Quantity Q in time 't' = input costs including material, capital, organizational and social responsibility costs given a certain perception of social responsibility at time period 't'.

However,

Social Responsibility $\text{Cost}_{(t)}$ ⇒ Δ (perception of social responsibility) $_{(t)}$
⇒ (perception of social responsibility) $_{(t+1)}$
= (perception of social responsibility) $_{(t)}$
+ change in (perception of social responsibility) $_{(t)}$

This increase will further augment corporate profits in time 't+1' and so on and so forth, thereby setting the pace for corporate growth.

This intertemporal corporate achievement can be set not just in terms of profits, but in other measures of desired corporate performance. Put in these terms, discharging corporate social responsibility and allocating definite corporate budgetary provisions acts as a catalyst for corporate movements over time, i.e. corporate growth.

7. Practising CSR–the carrot

"The first thing people need to understand about corporate social responsibility is that the business case is very strong. If you look at any survey, all other things being equal (such as price and quality), the consumer will buy from the company that has a responsible attitude towards its community. In

recruitment, people want to work for a company with a responsible social attitude." (Michael Rake, International Chairman, KPMG, Davos World Economic Forum, January 2005).

Robert Waterman, a present-day management guru in his book, "Frontiers of Excellence" refers to a study of socially responsible companies. He writes–"Burke's staff worked with the Business Roundtables' Task Force on Corporate Responsibility and the Ethics Resource Centre in Washington, DC, to compile a list of socially responsible companies ... The thirty-year performance of fifteen of these companies was carefully studied ... The group found that the return to shareholders for this group of fifteen companies beat the typical Dow Jones company by 7.6 times over the thirty year period.".... "Companies that set profits as their number one goal are actually less profitable in the long run that people-centred organizations." (Robert Waterman, 1995)

8. Implementing CSR in India

We find this strategy of social responsibility reflected in the success story of several organizations. Kantibhai Shroff made Excel Industries a 300-crore company from scratch. The plant at Roha is a typical example of this attitude of solving social problems. Kantibhai Shroff went to Roha on leave to take rest. He was moved by the misery of the people. On coming back to Mumbai he sent a group of his managers to Roha. His purpose was to set up an industry to generate employment. He anticipated that subsidiary and ancillary groups would come up around the industry leading to wealth creation for local people and subsequent development of the service sector. He asked one manager to imagine himself as chief minister of Roha, one as education minister, one as industry minister and so forth. With the plant as the nucleus, they developed a plan for the whole region. The rest is history.

In 1956, the managerial elite of Japan drew up the country's business policy entitled "The Social Responsibilities of Business Leadership". It says: "The function of management in a modern corporation goes far beyond that of a search for profit. From the moral as well as practical point of view, it is vital that modern corporate managers strive to supply products of highest quality at the lowest possible prices through the most effective utilization of productive resources consistent with

the welfare of the whole economy and society at large. It is indeed the social responsibility of modern executives to serve as an effective instrument to develop a managerial system capable of accomplishing the mission." This document is regarded as a milestone in the development of post-war business in Japan.

The same story was repeated by Matsushita in Japan. Matsushita's business motive ran thus: "Seeing the miserable state of Japanese society just after World War II with my own eyes prompted me to found PHP whose purpose is to seek Peace, Happiness and Prosperity for the world". The company's basic management objective was reflected in the slogan "harmony between corporate profit and social justice". Matsushita framed seven values for himself and eighty seven thousand people working in his companies. These principles guide the management practices of his companies. The first of these principles is: National service through industry. The company's primary mission is "creating value and contributing to society", based on an acknowledgment that the company is "entrusted by society with valuable resources, including human resources, materials, funds and information".

Nirma Chemical Works, which started in 1969 as a cottage industry, adopted a strategy of producing low cost good quality detergent for the poorest sections of society who could not afford the costly detergent marketed by Hindustan Lever. Manufacturing began in an ordinary garage. The product was prepared by hand by a group of women and hence the cost of production was low. It picked up in the local market and the next target was the village housewife. Instead of advertising in newspapers and magazines which are not read by villagers by and large, Nirma was advertised on the walls of village huts. Soon, Nirma became the major competitor of Hindustan Lever. The result was an increase in production from 12 tons in 1972 to thousands of tons in 1986 with a turnover of Rs. 250 crores.

The Grameen Bank of Bangladesh targeted the poorest section of society for giving loans from 1976. This was a target group which would not be given loans by other banks due to their lack of means to provide necessary security. By 1988 Grammen Bank had extended its loans to 5 lakh rural households spanned across ten thousand villages. Hence, it has built up a huge customer base with a repayment rate of almost 100%.

Lijjat Papad started in 1959 as an organization for poor and lower middle class women with all the workers as shareholders in the company. By the mid 1970s sales had reached Rs. 2 crores.

Ogilvy & Mather started off in 1949 with $6000, no clients and a motto which ran as follows: "The primary objective...must be to provide the best possible service to the customer. Profits are necessary, but they are a by-product of the services rendered". Today Ogilvy & Mather ranks as one of the largest advertising agency in the world.

Gulshan Kumar's success lay in making music cassettes affordable by all, not just the upper income group.

Western management talks of 'social entrepreneurship' as an entrepreneurial approach to social problem. Indian management talks of a social approach to entrepreneurial problems. The answer is success for the entrepreneur and progress of society.

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The Wisdom of Investing with a Conscience : Is Socially Responsible Investing a Guiding Light?

Kanika Chatterjee

Abstract

The need to question the wise use of money arises primarily because of the increasing strength of the global financial system and the dominance of finance as a human activity. Over the years, earning money as an end in itself has become the paramount motive in finance. The caveat, therefore, is to find out how money can be used wisely as a potential source of well being on the planet. This is the basic premise underlying the thesis of investing with a conscience.

The present paper dwells upon various significant aspects relating to the emergence of SRI as an ethically driven approach to investment. These include the ethical roots of SRI, the contemporary relevance of the SRI imperative, the impact of SRI on corporate performance and share prices, avenues for SRI, and SRI as a growth industry. A few interesting findings in respect of academic research issues are underscored in terms of the following questions: (1) Are shareholders intrinsically selfish and greedy? (2) Is it in the financial self-interest of shareholders to respond favourably to environmental/ social concerns addressed by corporate managers? (3) Does superior SRI performance reveal the "irrationality" of economic man? and (4) Does SRI promote ethical corporate behaviour? In conclusion, the paper seeks to evaluate the SRI concept that innately has ethical undertones, as to whether it can truly serve as a reliable guiding light for manifesting appropriate investment priorities of ethically oriented investors.

Key words : Socially responsible investment (SRI); Eudaimonia; Ethical investor; Ethical screening; Shareholder activism; Advocacy; Domini Social Index; "Rashomon" effect.

1. Prologue: in defence of the wise use of money

An old aphorism states: "We do not inherit the Earth from our parents; we borrow it from our children". Accordingly, caring for our planet is not merely an act of prudence; it is an act to demonstrate the present human generation's ultimate responsibility and duty of planetary stewardship towards our progeny. This insightful statement inspires us to make the right use of money for preserving life and elevating human consciousness as an act of sagacity.

The need to question the wise use of money arises today as never before, primarily because of the increasing strength of the global financial system as a frontrunner on the pathway of prosperity on this planet. It must be appreciated that finance as a dominant human activity, originated primarily, as a tool for facilitating exchange through trade, so as to provide people with needed goods and services. But, over time, making money for its own sake has become the paramount motive in finance. With the accumulating debris of corporate ethical lapses instigated by maliciously engineered white-collar frauds, it is but evident that the desire to earn money, without questioning the means adopted to do so, has become a major obsession with corporate managers. Corporate failures in the form of Enron, Arthur Andersen, WorldCom, Parmalat, Tyco, Barings Bank, Union Carbide, to name a few, starkly reveal how the real needs of the planet and its people has been grossly undermined, as a matter of deliberate choice, in the realm of finance.

Thus, when deciding upon the right approach to spending and using money, it is judicious to heed the words of the great Indian savant and spiritual philosopher, Sri Aurobindo (1970): "All wealth belongs to the Divine and those who hold it are trustees, not possessors. It is with them today; tomorrow it will be elsewhere. All depends on the way they discharge their trust while it is with them, in what spirit, with what consciousness in their use of it, to what purpose". Imbued with the spirit of Sri Aurobindo's exhortation, the major contention posited in this paper is that if money is used with acuity, it can be a potential source of well-being on the planet in many ways:

- It can be the root of good (instead of evil) decision and action if it is applied as a powerful force to catalyse positive change in environmental quality and social equity.

- It can support happiness (instead of pleasure) if it can be used to purchase healthcare, renewable energy, and energy-efficient public transport.
- It can sow love (instead of hatred) if it is used to promote avenues of peace, compassion, care, education, health, creativity, and human contentment.
- It can bloom on trees (rather than in coffers) if it grows through sustainable forestry, education, emancipation, and solving problems collaboratively with the disenfranchised segments of society.

The wise use of money is an oft-repeated theme in most philosophical discourses and religious texts. From a philosophical standpoint, particularly from the stance of teleological ethics, the core message is not to preclude the use of money to create a successful and profitable business through enterprise and perseverance, but to preclude achieving this end by unethical and questionable means. This is the basic premise of the thesis of investing with a conscience.

In this connection, it is worth noting the views expressed by the Greek philosopher, Aristotle who states that, as a branch of practical philosophy, ethics is concerned with knowing not for the sake of knowing but for the sake of doing—i.e., knowing how one should live. He used the term *eudaimonia* to describe the state of well-being that he assumed to be the highest good for human beings. Aristotle was well aware even in his time that opinions vary greatly with regard to the fundamental question: What is *eudaimonia*? Aristotle reasoned that as rational beings, we *homo sapiens* live rationally, which means that we seek to live in a way that will lead to the most complete realisation of our specifically human needs, capacities and abilities—to live a good life, a life that will allow us to flourish as human beings. Thus, *eudaimonia* involves an activity of the soul in conformity with our conscience and moral virtue, because true well-being consists in becoming a person who chooses wisely, not as a matter of expediency but, as a matter of habit.

Most major religious philosophies (e.g., Hinduism, Judaism, Buddhism, Islam and Methodism), too, propagate the doctrine against profiting from alcohol, tobacco, gaming, weaponry and other "sinful" activities, while mentioning the right and wrong uses of money. As a comprehensive treatise in the science of spirituality, the *Bhagwad Gitā*, provides a

time-tested, proven and universally true solution to the myriad problems of human existence. This solution is true for every human being, and for every kind of human activity. In other words, both religious and non-religious activities can be performed as a field of work for the practice of the spirit of the *Gītā*. Sri Aurobindo (1970, pp.670-71) underscores the significance of the *Gītā's* message in regard to its applicability to business, in the following words: 'It is in *his* (Sri Krishna's) view quite possible for a man to do business and make money and earn profit and yet be a spiritual man, practise *yoga*, have an inner life'. To cite another instance, John Wesley, the founder of Methodism and a renowned Christian preacher, in his congregational addresses delivered in the eighteenth century, asserted: 'Gain all you can, but not at the expense of your conscience; not at the expense of your neighbour's wealth; not at the expense of your neighbour's health'.

2. Investing with a conscience: emergence of 'socially responsible' investment

The idea of investing with a conscience is captured by a variety of evolving terminology, such as social responsible investing (SRI), socially aware investing, ethical investing, conscientious investing, social investing, green investing, ecological investing, sustainable (development) investing, values-based investing, and mission-based investing. However, the epithet "socially responsible investing" (SRI) is the "standard descriptive term" (Sparkes, 2002, p. 23) around the world especially among the business and investment communities. It may be pointed out that many of these terms tend to be used interchangeably within the investment industry to describe an approach to investing that is a fundamental departure from "growth investing". The traditional growth-oriented investment process is driven by strategies that focus exclusively upon financial goals directed at wealth maximization through capital appreciation, increase in income, minimization of financial risks, and/or tax savings. Issues pertaining to social responsibility and sustainability are treated as an "externality" and considered financially immaterial; consequently, long-term issues are subject to short-term assessment, thus leading to a gross mismatch with the investment horizon. The alternative approach of "investing with a conscience" seeks to integrate

financial goals of investors and borrowers with their personal ethical values as well as environmental and societal concerns into the financial decision-making process. This can provide the financial community with an opportunity to discharge their duty of planetary stewardship by lending a voice in shaping the future of quality of life on planet Earth. As an emerging area within corporate social responsibility (CSR), the idea of "investing with a conscience" raises the very pertinent question about the willingness of investors to discriminate among companies, sacrifice short-term returns, and pursue strategies to limit their investments to companies deemed to be operating in an ethical and socially responsible manner (Werther and Chandler, 2006, p. 184). Thus, the alignment of financial motivations with ethical, social and environmental priorities may be considered as the hallmark of investing with a conscience, irrespective of the nomenclature adopted. This is evident from Table 1.

Table 1
Several nuances of investing with a conscience

Socially Responsible Investing	**Ethical Investing**	**Sustainable Investing**	**Green Investing**
An investment that considers the values of society as a whole. These values centre on people, animals and the natural environment.	*The application of ethical principles to the investment of capital to achieve a Triple Bottom Line.* This term is often used to mean the same as socially responsible investing.	*Investment in a business/industry of the future that will be sustainable through time* (e.g., forestry; solar energy). It injects environmental/social issues, plus traditional financial concerns, into corporate governance.	*A nature friendly, environmentally appropriate investment*

The confusion generated from diverse terminology may be clarified in terms of the fact that SRI is intended to take into

account both ethical and environmental considerations. In such a case, the "ethics" may be derived from underlying investor motivations rather than being explicitly stated in the fund's objectives. The argument is that investors who avoid tobacco companies, for instance, on ethical grounds will expectedly avoid them on environmental grounds, if they base their decision on the information that for every 300 cigarettes made from third world tobacco, one tree is burnt (Tennant, 1991). But, there may be a fine line of difference between investment in environmental activities carried out to maximize profits and that carried out to encourage sustainable development. It is only in the latter case that the terms "sustainable" investing and "green" investing become truly relevant (Sparkes, 2002, p. 24).

A heightened interest in the quality of corporate governance, and in the social/ethical implications of corporate investment decisions that are intrinsically long-term in nature, has proved the growing relevance of socially responsible investment (SRI) as a value-laden idea in the world of finance. Institutional investors have also become increasingly aware of the importance of SRI owing to client demand, corporate citizenship initiatives, and potential economic benefits (Mallin, 2004, p. 80). Thus, a contemporary definition of SRI (Sparkes, 2002, p. 26) is as follows: "the key distinguishing feature of socially responsible investment lies in the construction of equity portfolios whose investment objectives combine social, environmental and financial goals. When practised by institutional investors this means attempting to obtain a return on invested capital approaching that of the overall stock market". Thus, one of the key attributes of SRI is the impact on corporate behaviour through the power and influence of shareholders, centred upon the holding of equity shares in companies. The second major attribute is the need to balance financial factors with social/ environmental considerations, instead of overemphasizing one or the other category. This is especially relevant when we witness the growing importance of institutional investor participation in the SRI universe. For retail investors, prioritising maximum avoidance of negative social/environmental impacts relative to financial performance of an investment may be a worthwhile justification, but institutional investors inherently want to maximize financial returns subject to SRI constraints (Sparkes, 2002, p. 26).

The involvement and willingness of institutional investors in the USA and UK to screen potential investments as ethically, socially and/or environmentally appropriate, is a key driver of the development of SRI. According to the OECD (1998) Corporate Governance Report: 'In the global economy, sensitivity to the many societies in which an individual corporation may operate can pose a challenge. Increasingly, however, investors in international capital markets expect corporations to forego certain activities—such as use of child or prison labour, bribery, support of oppressive regimes, and environmental disruption—even when those activities may not be expressly prohibited in a particular jurisdiction in which the corporation operates'. Accordingly, over the last decade, a number of publications on the various facets of socially responsible investment (SRI) have been documented. Case (1996), editor of the *New Energy Report* newsletter, advises investors to purchase shares of those companies that have sound environmental policies and avoid those that participate in environmentally irresponsible practices. Case focuses on locating companies pursuing new and innovative energy sources or production means and on highlighting issues such as alternative energy, recycling, agriculture, or pollution cleanup, in making stock-portfolio recommendations. Feigenbaum (editor of GreenMoney Journal) with the Brills father-son duo (1999) underscore environmental concerns most while also identifying other potential issues of concern to investors, including animal rights, equitable and non-exploitative labour policies, and weapons production. The authors advocate a simpler lifestyle that is calculated to reduce personal consumption so as to set aside money for life's essentials and for investing for a sustainable future.

3. Objectives of the study

Based upon the wisdom of investing with a conscience, the present paper revolves around the following objectives:

(i) To clarify the need and contemporary relevance for SRI as an ethically driven approach to investment.
(ii) To trace the ethical roots of SRI.
(iii) To highlight the relationship between SRI, corporate performance and share prices.

(iv) To identify the avenues of SRI and its status as a growth industry, and
(v) To answer questions of academic interest as:
   (a) Are shareholders greedy and selfish ?
   (b) Does superior SRI performance reveal the irrationality of economic man ? and
   (c) Does SRI promote ethical corporate behaviour ?

4. Contemporary societal role of SRI

A socially responsible investment (SRI) serves as a tool for dialogue between companies and society that encourages the former to behave in a way beneficial to present and future stakeholders. It represents an investment strategy in any segment of the financial sector where the personal values and societal concerns espoused by investors, significantly influence the organisation (s) or venture (s) in which they choose to place their money, based upon a consideration of "triple bottom line" (social, environmental and financial) enterprise performance. As such, socially responsible investors might include a broad spectrum of society—individuals and institutions such as companies, universities, hospitals, foundations, insurance companies, pension funds, non-profit organisations, as well as religious institutions and trusts.

As an investment strategy, SRI applies "positive screening" to identify companies with good "ethical" standards, such as maintaining a good record of environmentally friendly technologies and production methods based on eco-innovation, or it applies "negative screening" to discourage investors from investing in companies which produce goods considered as "unethical" (such as weapons, tobacco or alcohol), or which pursue environmentally unfriendly production methods. Thus, it may be inferred that SRI is "an investment process that considers the social and environmental consequences of investments, both positive and negative, within the context of rigorous financial analysis" (Social Investment Forum, 2001). Such a process serves to connect private-sector investors with the pathway of sustainability. It is oriented towards "long-term business success while contributing toward economic and social development and a healthy environment and stable society" (SustainAbility and International Finance Corporation).

A socially responsible investment has two objectives: (1) to encourage better corporate social and environmental perfor-

mance, and (2) to improve actual financial performance. The second objective stems from the additional analysis that SRI entails, leading to the discovery of hidden risks and opportunities often lying undetected by investors in their traditional investment analyses. This explains why SRI can be employed increasingly as an instrument to pioneer the use of private capital for influencing sustainable business practices. In fact, SRI can potentially become the financial market's response to sustainable development, and a key tool for building a sustainable future for the global economy. By integrating environmental and social considerations with financial factors, SRI allows investors to take more responsibility for their own future on the planet. As the SRI process makes headway, boards of directors and management teams of companies will have to recognise the viewpoints of investors who are concerned about holistic corporate performance in terms of sustainable added value.

5. Ethical roots of socially responsible investing

Contrary to what we might expect, SRI is not particularly an innovation of the 20th century. It has developed along a tradition of deontological concern for social justice dating back to Victorian times. Social concerns such as the temperance movement and the struggle for improved conditions of employment may be cited as typical examples (Sadler, 2004, p. 57). Nonetheless, it may be acknowledged that the idea of SRI has been deeply rooted in religion and ethics, and in fact, the first recorded SRI funds were strongly founded on religious principles. For example, the *Friends Provident* was founded in 1832 to provide life assurance for the Society of Friends, popularly referred to as the "Quakers". While they rapidly built up investment funds, they pledged never to invest in companies with business activities that involved any form of slavery. In the early 1900s the Methodist Church, wanting to invest in the stock market, was also religiously inspired, and so, refused to invest in companies dealing in alcohol, tobacco or gambling as part of their business. This led to the birth of the *Pioneer Fund* in 1928 to be used as a means to avoid investment in alcohol, gambling and tobacco stocks. Ever since then, Methodists in the U.S. and the U.K. have continued to apply investment screens that would be considered as "social" or "environmental" criteria today (Domini, 2001).

The contemporary SRI movement was catalysed by diverse historic developments during the latter half of the twentieth century, and sure enough, it is difficult to trace its origin to a single defining moment. A triad of social forces— (i) the Vietnam War (anti-war activism), (ii) the anti-apartheid movement in South Africa (anti-racism), and (iii) worldwide environmental activism intensifying during the 1970s and 1980s (environmentalism)—set the tone for the modern SRI movement that has evolved rapidly from the exclusion of "sin stocks" (such as tobacco, alcohol and gambling) in investment portfolios, to decrying investment in war ammunitions and encouraging "peace portfolios", to bolstering South African divestment as a protest against Apartheid, to supporting environmentally benign "green" investment, and ultimately to promoting engagement in sustainable development investing.

The social and political upheavals wrought by these critical events provoked ethically sensitive investors, particularly among Americans, to question the legitimacy of mega-corporations involved in the wanton destruction of rainforests and in the enormously profitable mass production of modern weaponry that were calculated to cause misery to innumerable homeless refugees. So, in 1971, two Methodist ministers collaborated to create the first "modern" socially responsible mutual fund—the *United States Pax World Fund* (currently worth U.S. $ 1 billion)—in response to the demand for investments that did not benefit the Vietnam War. In the UK, SRI was born when *Mercury Provident* (now popular as *Triodos Bank*) was set up in 1974 to lend to projects with an anticipated social benefit. Furthermore, the political unrest in South Africa as an emerging market brought SRI on to the centre stage. Once again, it was religiously oriented investors who set the tone. In 1976, Reverend Leon Sullivan, a member of the Board of the automobile giant, General Motors, then the largest American employer in South Africa, drafted a code of conduct for companies doing business in South Africa. Subsequently popularized as the "Sullivan Principles", this code required companies to encourage non-segregation of races, equal and fair employment practices, and a steady increase of blacks in managerial positions. By the early 1980s, the Sullivan Principles helped to unite U.S. anti-apartheid activists and in 1984, two of the largest U.S. public pension funds, the *California Public Employees Retirement System (CalPERS)* and

the *New York City Employee Retirement System*, issued investment guidelines concerning South Africa. Until then, Wall Street, the bastion of US stock market activity, had paid scant attention to SRI, deriding it as a fringe movement within the investment world. But, with large public pension funds entering the arena, Wall Street could no longer afford to ignore the SRI phenomenon.

In the 1980s, the SRI movement gained increasing momentum with a growing recognition of the need for planetary stewardship on the part of large corporations, especially MNCs, based on the argument that the economically powerful few could not continue to deplete the Earth's resources at the expense of the many. Consequently, environmental legislation became more stringent, the imminent need for sustainable development came to be acknowledged, and the need to reduce pollution emissions and environmental damage became a global business imperative. These conditions led many investors and investment analysts to consider it appropriate to signal a change from conventional investing policies to investments in companies with a positive "green" image. Thus, Jupiter Asset Management's *Ecology Fund* was launched as an authorised 'green' Unit Trust in 1988 to invest in companies worldwide responding positively to and profiting from the challenge of planetary stewardship and environmental sustainability. The *Ecology Fund* was aimed to encourage the adoption of higher environmental and social standards, and offered investors, for the first time, an opportunity to invest in companies that are likely to benefit from the transition to a sustainable future.

6. Present-day relevance of the SRI imperative

The relevance of the SRI movement since the late 20th century is being increasingly debated with the growing recognition of the need for ecological, social and economic well-being on the planet. It may be argued that the following emerging trends over the last decade, that are inextricably linked with the globalization process (IFC, 2003), appear to signal the need for a mainstream adoption of sustainability-oriented SRI:

1. Global population and resource consumption pressures;

2. Stringency of regulatory pressures in respect of environmental legislation emanating at all levels (e.g., the Kyoto Protocol on climate change and global warming);
3. A change in consumer/investor demographics with the emergence of a new and enlightened generation of ethically sensitive "greener" consumers and investors;
4. Growing institutional shareholder activism;
5. Growing awareness of corporate managers about the strategic and financial benefits associated with superior sustainability-driven performance;
6. A growing realisation among strategic managers that corporate sustainability can be a major source of differentiation and hence, competitive advantage, in an era of intensifying global competition;
7. Increased stakeholder demand for transparency and velocity of company information;
8. The pressure and challenge from non-governmental (environmental and social) organizations (NGOs) equipped with better information and growing credibility.

The SRI movement in its present form may be viewed as a necessary corollary to the earlier wave of "ethical consumerism" i.e., the use of consumer buying power to attain socially and environmentally relevant goals. Way back in 1994, *The Economist* (1994, pp.71-2) signalled the dawn of "the era of the corporate image, in which consumers will increasingly make purchases on the basis of a firm's role in society: how it treats its employees, shareholders, and local neighbourhoods..." Such a phenomenon is already well established in retail markets. In many respects, the growth of SRI may be seen as a natural extension of this process into capital markets, where socially responsible buying lays the foundation for successful socially responsible investing, and where ethically aware investors focus on financial and ethical dimensions of their choices. Companies failing to make it through ethical screens will lose customers and hence, sales and for similar reasons, SRI funds will also shun them. Socially responsible investors, in effect, reap what they have sown as socially responsible consumers, to produce a self-reinforcing process. Dame Anita Roddick championed this trend in the UK with the Body Shop International, and the US outdoor clothing brand, Patagonia inder the leadership of Yvon Chouinard, has had similar success. McDonald's, Shell and Nike have suffered from the

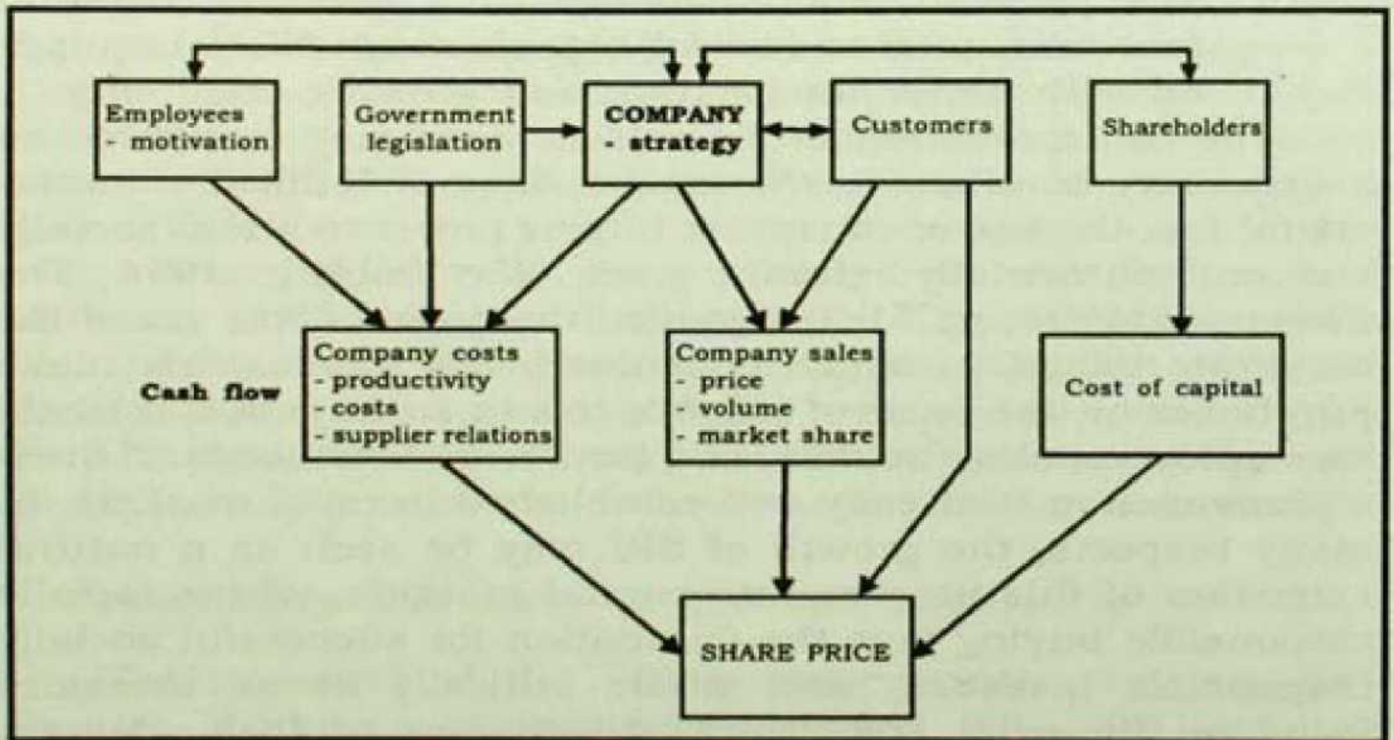
consequences of such a process and responded favourably, after being punished for their alleged CSR transgressions.

7. The impact of SRI on corporate performance and share prices

Theoretically, there are two ways in which SRI might impact share prices by way of triggering improvement in the quality of corporate performance and its alignment with issues of CSR.

Figure 1A

Relationship between corporate strategy, SRI and share prices



Source: Havemann, R. and Webster, P. (1999).

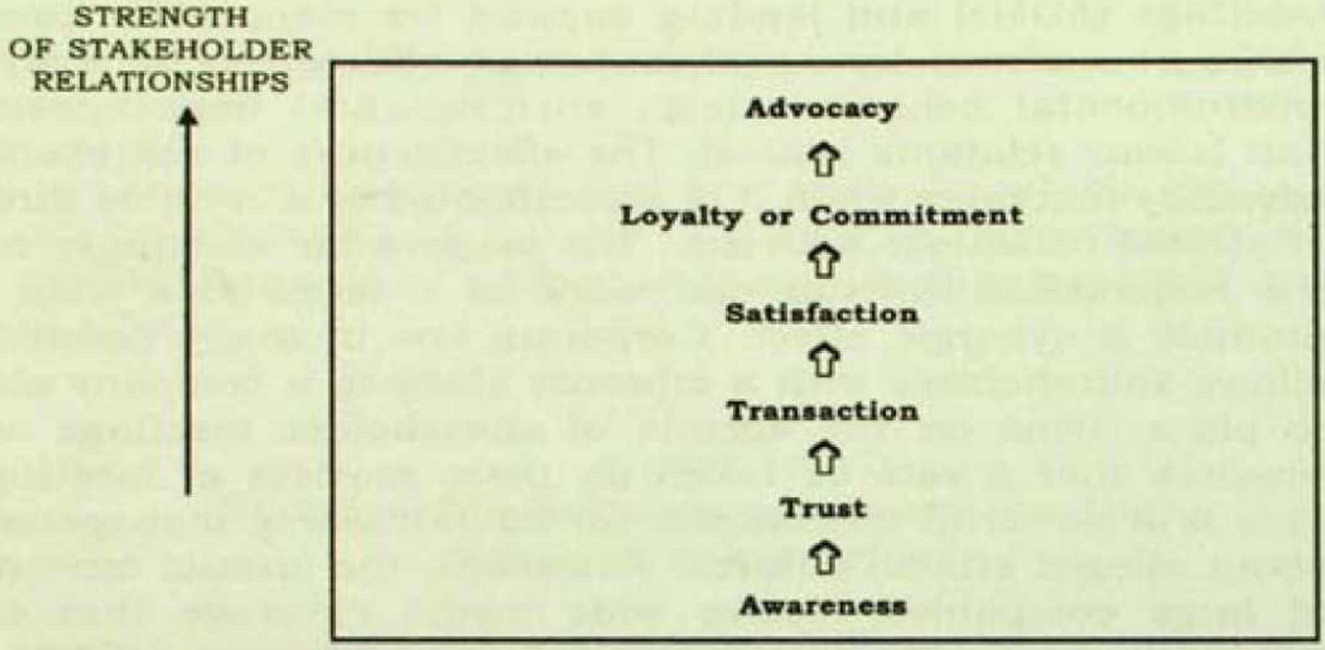
The first route is through the cost of capital. A company that is out of favour with investors, because of its products or processes, will be ,subject to negative ethical screening accordingly, and hence, will have to pay more for acquiring capital from the market, either by issuing more shares or by paying higher interest rates. The second route is the mechanism of shareholder advocacy, a popular SRI strategy where

shareholders apply themselves in the capacity of corporate owners through dialogue, pressure, voting at annual general meetings (AGMs) and lending support for responsible governance to address issues of corporate ethical, social and/or environmental behaviour (e.g., environmental impact issues and labour relations issues). The effectiveness of shareholder advocacy increases when it is accompanied by a credible threat of ethical consumer activism. The responsible consumer and the responsible investor can work as a formidable team to produce a synergic effect. Corporate law in many countries allows shareholders with a minority stake in a company also, to place items on the agenda of shareholder meetings and requires that a vote be taken on these matters at meetings. This is a powerful mechanism for embarrassing management about alleged ethical failures. Nowadays, the annual meetings of large companies receive wide media coverage that can produce considerable negative publicity sometimes leading to consumer boycotts and diminished retail sales. All such events can be predicted to have an adverse impact on market perceptions reflected in low perceived utility value (PUV) about the company and its products in the eyes of customers leading to a decline in market capitalisation, and hence share prices.

Havemann and Webster (1999) have attempted to trace the relationship between a company's strategy and its stakeholders (namely, shareholders, employees, customers and government), and to demonstrate thereby, how socially responsible investing can impact a company's cash flow in terms of costs, sales, and the cost of capital, ultimately to impact share prices (Figure 1A). MORI has assessed the key relationships of a business with its stakeholders, called the Relationship Hierarchy (Hutton, 1997) that reflects the depth of the key stakeholder relationships of a business by means of a vertically layered hierarchy (vide Figure 1B).

Figure 1B

The relationship hierarchy



At a high level of strong stakeholder relationships, the level of loyalty or commitment implies not only a willingness to repurchase (in the case of a consumer) but also to recommend the business to others if asked. At the highest level of advocacy the individual is so impressed by the company that he or she will recommend it to others without being asked. The company's own customers and other stakeholders are doing its marketing for mutual benefit.

8. SRI : A growth industry

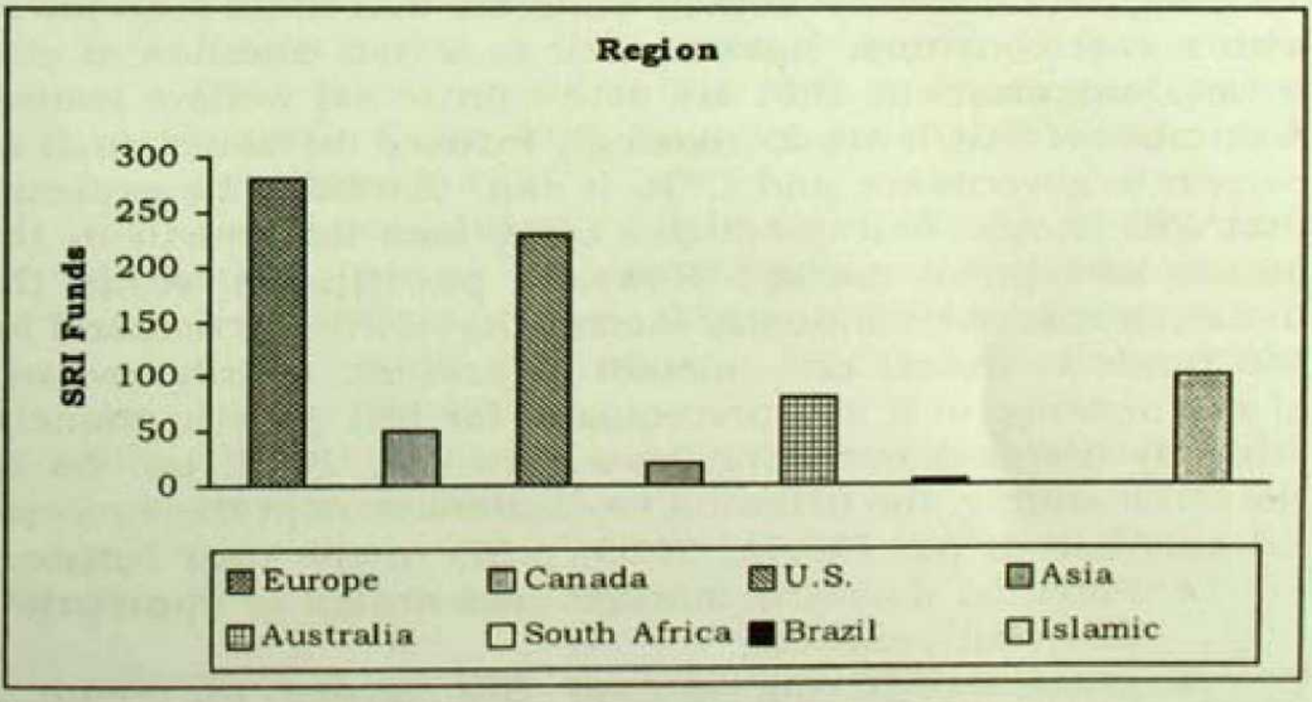
The potential impact of SRI on a company's performance can help explain its phenomenal expansion in developed countries over the past three decades and its significant contribution to overall market capitalization. From its modern beginnings in 1971, SRI has grown into a $2.7 trillion global industry consisting of more than 766 retail funds (as shown in Table 2) and institutional investors. In the U.S.A. alone, assets held in the ethically screened portfolio variant of SRI i.e., in portfolios that filter investments according to social or environmental criteria, amount to more than U.S. $2 trillion.

Table 2
Distribution of retail SRI funds worldwide

Region	Number of funds
Europe	280
Canada	50
U.S.	230
Asia	20
Australia	80
South Africa	5
Brazil	1
Islamic	100
Total	766

Source: International Finance Corporation, 2003,* p. 12

Figure 2
Worldwide distribution of retail SRI funds



As Figure 2 indicates, currently, SRI remains predominantly concentrated in the developed Anglo-American coun-

tries, where the pace of expansion has accelerated in recent years and is likely to continue. In emerging markets, the growth in SRI has not yet occurred on the same scale, but, the scenario could soon change, with emerging markets accounting for two-thirds of the world's population and one-third of the world's resource use. This is because "socially responsible investors" are increasingly turning their attention to global sustainability issues, which by definition, includes "intergenerational equity" and by that token, investments in emerging markets. Thus, in the medium to long term, the prospects for expansion of SRI in emerging markets could make it a major force in influencing how companies worldwide contribute to sustainable development. SRI held in emerging market assets, primarily in large capital stocks, currently stands at an estimated U.S. $2.7 billion, i.e., only about 0.1% of all SRI worldwide. Of this, about $1.5 billion is held by developed-country investors and about $1.2 billion by emerging-market investors. (International Finance Corporation, 2003). These statistics do suggest that there are some barriers inhibiting greater SRI expansion in emerging markets, but there are also identifiable opportunities for overcoming these barriers because there is evidence of significant untapped demand for growth in emerging-market SRI.

As far as the situation in India is concerned, the scale of on-going developmental activity suggests that India is endowed with a vast consumer class as well as a rich tradition of civil society organizations that are active on social welfare issues. A number of NGO's are increasingly focused on issues such as corporate governance and CSR. It can, therefore, be expected that SRI should find conducive conditions for growth in the Indian investment market. However, participants within the Indian mutual fund industry lament that domestic demand for SRI funds is almost non-existent at present, mainly because of the absence of a key prerequisite for SRI growth, namely, ethically oriented investors (www.asria.org, 2003, pp. 56-7). Notwithstanding, the following key factors prompt the successful adoption of SRI (ASrIA, 2003, p.57) in the near future:

- Potential domestic markets and design of appropriate financial products;
- Awareness-raising around SRI issues to create a receptive local culture on both the business benefits as also the social and environmental gains from an SRI approach to investment;

- Institutionalization of a credible corporate governance regime in India, and its sincere adoption by domestic companies, to gain the confidence of international investors;
- Education, leadership and active participation on the part of key financial institutions, companies and civil society actors, to promote SRI in India;
- Supportive economic reforms and public policy regimes that emphasise core SRI principles of sustainable development, equity and profitability.

A few of the visible signs of potential SRI development in India may be traced as follows (ASrIA, 2003, p.77):

1. Some early domestic SRI funds are already present in the market.
2. Mutual fund industry and retail investment are maturing.
3. The vast consumer class could be strong supporters of SRI in the future.
4. The potential investing public is showing increasing awareness and interest in mutual fund products as opposed to traditional bank accounts.
5. There is a long tradition of environmental/ social awareness and activism in the wider community.
6. Active civil society and civil institutions are increasingly focused on corporate governance and CSR issues.
7. In particular, a CSR-research based NGO, Centre for Social Markets (CSM) is actively promoting SRI and has organized the first ever conference on SRI in India, jointly with ASrIA.
8. Development and private equity funds are becoming more focused on managing sustainable investment.
9. Government is increasingly recognizing the importance of corporate governance, including the protection of small shareholders.
10. Corporate reporting of environmental performance is rapidly improving.

9. Investment avenues within SRI

Over time, several approaches have evolved to make operational, the central tenet of SRI. Sparkes (2002, p.29; p. 42) summarizes the different approaches into six identifiable categories as tabulated below (Table 3):

Table 3

Varying investment approaches within SRI

Approach	Risk	Suitability for Class of Investors
1. Classic Avoidance/ Exclusion	Lack of diversification and potentially lower returns from portfolio	Retail funds; unit trusts; mutual funds
2. Engagement/ Targeting Positive Activities	Limited data availability; time-consuming	Institutional investors; none at present
3. "Best-in-class"	Limited data availability; could produce good returns	Institutional investors; few at present
4. Shareholder activism	Must own "problem" (e.g., promoting global warming, genetically modified foods) shares	Institutions not liked by retail investors
5. Industries of the future	Highly concentrated portfolios (with environmental bias); high risk	"Green" investors hoping for dual benefits
6. SRI-risk optimisation	Low portfolio risk; risk-reward performance similar to benchmark index	Pension funds

In essence, SRI has three basic mechanisms to promote corporate social responsibility: avoidance (exclusion), engagement (dialogue) and shareholder activism (coercion). A fourth mechanism, namely, public disinvestments, causes protesting investors to reduce their stake in corporate investment. For instance, religious institutions or other charity investors use their moral authority to publicly announce their decision to sell their shareholdings in a particular company on ethical grounds, thereby increasing the reputational risk exposure of the latter.

10. Exploring some truths about SRI: revelations from academic research

To provide a logical basis for explaining the motivations underlying SRI behaviour, researchers in academia, over the last three decades, have tried to assess whether corporate social and environmental performance, corporate social disclosures, corporate economic performance in terms of accounting profit, and stock market performance in terms of share prices were interrelated. Most of such research was directed at examining whether shareholders rewarded, penalised or were indifferent to companies with a better than average environmental/social performance. The research, for the most part, is inconclusive (e.g., Ullman, 1985; Mathews, 1987; Gray, Owen and Maunders, 1987; Belkaoui and Karpik, 1989; Gray, 1990). But, there is a suggestion that investors care about social disclosure and social performance only when it affects financial performance. Attempts to isolate the "environmental" element of social performance have produced broadly similar results. The inference, in general, is that investors care very little about the intrinsic ethical positions of organisations. The results of these research findings are summarised in Table 4.

Table 4

Interrelationship between dimensions of corporate social responsibility

Dimensions of CSR	Social/ Environmental Performance Economic	Social/ Environmental Disclosure	Performance as per Accounting Profit	Stock market performance
Social/ Environmental Performance	×	No relationship	Slight relationship	Slight relationship
Social/ Environmental Disclosure		×	Slight relationship	Possible relationship
Accounting Profit			×	Possible relationship
Stock market performance				×

There is an implicit suggestion in these research findings that environmentally/socially sensitive corporate managers will be constrained in the options they have at their disposal to implement socially responsible practices. This is because shareholders will not be induced to take a positive stance on environmental and social matters that corporate managers address, unless there is an associated financial reward for them in terms of enhanced dividends. For instance, the top management of many manufacturing companies who are willing to invest in pollution prevention (PP) technology for improved environmental quality, voluntarily or by fiat, would normally not be able to persuade their institutional and individual shareholders that an environmental investment is justified. This raises two perplexing questions about the compatibility of the agenda underpinning a corporate social responsibility (CSR) strategy, with the traditional thinking in accounting, finance, economics and business. Firstly, it is necessary to inquire whether shareholders are intrinsically selfish and greedy, in keeping with the dominant contention of economists that people care more about their own material well-being rather than the welfare of other people. Secondly, we need to find out if it is in the financial self-interest of shareholders to respond favourably to environmental/social concerns addressed by corporate managers, when making investment decisions. Thirdly, we need to ask whether the favourable performance of several SRI portfolios reveal the irrationality of the self-interest model of economic rationality.

A survey of existing literature regarding investor behaviour vis-à-vis the SRI approach, as well as the performance of SRI funds vis-à-vis conventional mutual funds, does help to provide clues to these important questions. More importantly, it can clarify prevailing misconceptions, if any, to establish the intrinsic ethical sensitivity of many investors on the one hand, and the superior performance trend of SRI as a "win-win" strategic alternative to "growth investing".

(1) Are shareholders intrinsically selfish and greedy?

In fact, SRI reveals diverse ethical preferences of shareholders. It may be clarified that SRI has originated from the assumption that investment behaviour of individuals is guided by considerations that go well beyond the typically selfish "rational" norm of the economic actor—norms such as

reciprocal preferences and fairness preferences can affect economic activity, too. Individuals can and do entertain such ethical preferences, thereby integrating personal values and societal concerns with their economic decision-making. The ethical element in an SRI investment profile is primarily concerned with channelling investments away from activities that are perceived to cause an undesirable social consequence or undesirable effects on certain social constituencies, towards activities that are able to promote desirable social change, or can have desirable effects on certain segments of society.

Ethical concerns of individual investors may be a reflection of diverse influences—social pressure, guilt, sympathy, political preferences, altruistic considerations, the compulsion/desire to be good citizens by caring about the societal impact of own actions on others, or a feeling of satisfaction associated with an act of doing good to other people.

Furthermore, demand for ethical investments may be correlated with several investor attributes (Säve-Söderbergh, 2003). First, education is significantly and increasingly decisive for ethical investment, based on the logic that education may foster attitudes on ethics or generate knowledge on anticipated societal changes. Second, research has shown that women have a higher demand for ethical investments, because they are found to be more altruistically inclined. Third, the choice of occupation predicts the demand for ethical investments. Fourth, an active decision to join a social group working for a common cause, e.g., animal rights activism, is a valid predictor of a higher demand for ethical investments. Contrary to popular thinking, the idea that age, income or financial wealth should govern ethical investments exclusively finds weak support in research studies. As an increase in any of these variables reflects a decreasing proportionate cost of ethical investments, ethical investors may not always be typically guided by cost.

The beauty of socially responsible investing lies in the fact that everyone's vision of a sustainable future is not the same. Despite the diversity in perceptions of sustainability and what constitutes socially responsible behaviour, the common thread that binds socially responsible investors is that they are deeply concerned with human and natural capital, in addition to economic capital. Each opinion reflects a particular individual's or institutional investor's highest aspirations for a good life and

a better world, which is epitomised in Aristotle's ethical construct of *eudaimonia*. Some investors are more concerned about environmental problems, whereas some feel strongly about how companies treat their employees or exploit labour in developing countries, while others worry about the societal effects of certain products, such as tobacco, weapons, or alcohol. Investors of a religious persuasion eschew companies promoting gambling or running casinos. Funds that underscore animal rights by discouraging the inclusion of businesses associated with the exploitation of animals, negatively impact the targets to be avoided. Thus, there could be a mosaic of social concerns representing as many angles to socially responsible investing as there are investors. Indeed, it may be surmised that each ethical viewpoint championed by an active non-governmental organisation has an investment fund to support its aims (Heal, 2001). So, funds have to be created for all persuasions, as a means to promoting SRI. A company might appeal to some but be anathema to others. There does seem to be considerable general agreement among SRI funds on a set of criteria that are used to define social responsibility. Weapons, pollution, gambling, and abuse of human and rights are all seen as unethical. Thus, executives who want to court socially responsible investors need to place their companies strategically on these issues.

From an investment manager's point of view, this raises the problem of customising portfolios to reflect the values of an individual investor because what is socially responsible behaviour to one potential investor may not be construed as socially responsible to someone else. However, in an age when product customization is a market reality, socially responsible investors can find their portfolios customized to reflect a unique set of values that they espouse. Instead of settling for the priorities of a particular mutual fund, discerning investors are buying shares in the companies they respect. The construction of such customized portfolios brings an additional challenge to the already complex task of selecting winning stocks, primarily because these winners must now come from a select pool of honourable companies. Ethically oriented investors could find themselves with a difficult research project of analysing their portfolio, in order to avoid including those companies that window-dress their reality with ingeniously crafted public relations and corporate communications engaging in corporate "greenwash".

(2) Is it in the financial self-interest of shareholders to respond favourably to environmental/social concerns addressed by corporate managers?

Research evidence shows that SRI provides competitive or superior returns to ethical investors. It is a common misconception among traditional investment advisors and managers that SRI requires investors to forego financial return to achieve a desired social or environmental benefit or public good. Most investors, too, find it difficult to comprehend that it is possible to do well, while doing good, because they assume that there is a financial cost to combining societal and financial goals. Traditional economists who think that there must be a cost to the limitations imposed by an SRI approach, in fact, reinforce this common belief. They contend that there is no free lunch, and everything good can come only at a cost. So, SRI funds should, in principle, offer lower returns than those without any constraints on their portfolio choices. This argument is based on modern portfolio theory that holds diversification to reduce risk and maximize long-term returns. Consequently, anything that limits an investor's ability to diversify will increase the risks unnecessarily and yield a non-optimal portfolio. For example, to eliminate weapon and tobacco industry securities, will limit the individual's ability to diversify into an industry sector that may outperform the rest of the stock market. Socially screened investing may thus produce higher risk-adjusted portfolio returns than merely using all the available stocks in the equity universe. By the same token, the expected return will be lower at a constant risk level. The detrimental effect on expected returns will accordingly depend on how many investment opportunities are withdrawn from the portfolio. Socially and environmentally screened investing may thus produce higher risk-adjusted portfolio returns than merely using all the available stocks in the equity universe. By the same token, the expected return will be lower at a constant risk level.

Surprisingly, this contention does not seem to hold good. While it may be true that early social investors focused overly on the social side of the equation, nearly two decades of performance data show that SRI has provided returns competitive with or even superior to traditional investment approaches. SRI growth has been driven by its consistently competitive

financial performance, thus invalidating the uninformed notion that attention to social and environmental issues detracts from financial performance.

The empirical evidence from academic research, in general, has revealed no significant difference between the financial performance of socially and environmentally screened mutual funds in comparison with the performance of their unscreened peers. Diltz (1995) finds no statistically significant difference in returns for 14 socially screened stock portfolios as against 14 unscreened stock portfolios generated from a universe of 159 US securities during the period 1989-1991. Based on a larger sample, Guerard (1997) discovers no statistically significant difference between the performance of a screened universe of 950 US common stocks and an unscreened universe of 1300 US stocks between 1987 and 1996. Statman (2000) of Santa Clara University compared the performance of 31 social mutual funds to that of 62 unscreened conventional funds; each group had approximately the same asset size. He found that the mean performance of the social mutual funds beat that of the conventional funds. The difference in performance between the two fund groups, however, was not statistically significant. Statman concluded that the social mutual funds' performance was no worse than that of the conventional funds. For European securities, Plantinga and Scholtens (2001) conclude that sustainable investing according to the Dow Jones definition did not result in a return distribution that significantly differed from a more conventional or regular investment strategy for 784 funds in France, Belgium and the Netherlands during 1994-2000. All these studies claim to show that SRI funds offer returns as good as those on other funds and, indeed, that performance on environmental and human rights criteria is a good predictor of the overall financial performance of companies.

What do these studies indicate? SRI is typically a "win-win" strategic investment alternative that enables investors to synchronise doing "well" (financially) with doing "good" (socially). Another strand of compelling recent evidence from the investment world indicates that most SRI funds or investment portfolios composed of companies committed to sustainable development have, on the whole, matched or outperformed their relevant benchmark indices. Some studies do suggest, however, that there may be more risk associated with sustainable/

socially responsible investing. For example, SRI World Group's analysis of socially responsible mutual funds supports these findings. SRI World Group reviewed the 3-year performance data (three-year period ending 31-12-2001) for 19 broadly screened social mutual funds, each with assets totalling more than $75 million. The benchmarks of three years and $75 million in assets have been established by the Foundation for Fiduciary Studies as important requirements for meeting fiduciary standards. SRI World Group performed its own analysis of the risk vs. return trade-off for the largest broadly screened social mutual funds. Broadly screened funds are loosely defined as funds that consider more than a single parameter, such as tobacco in their social and environmental screening This investigation demonstrates that SRI portfolios generally produce returns competitive with conventional portfolios. This analysis of mutual funds also points out that although it yields competitive investment performance, the inclusion of social and environmental criteria in the investing process may have slightly higher levels of risk than investing in unscreened funds. In 2003, 67% of the 52 screened U.S. funds tracked by SIF earned the highest ratings for performance from Lipper and/or Morningstar. A Morgan Stanley study found that sustainability leaders in the MSCI World Index financially outperformed sustainability laggards over the past 4 years (SIF, 2003).

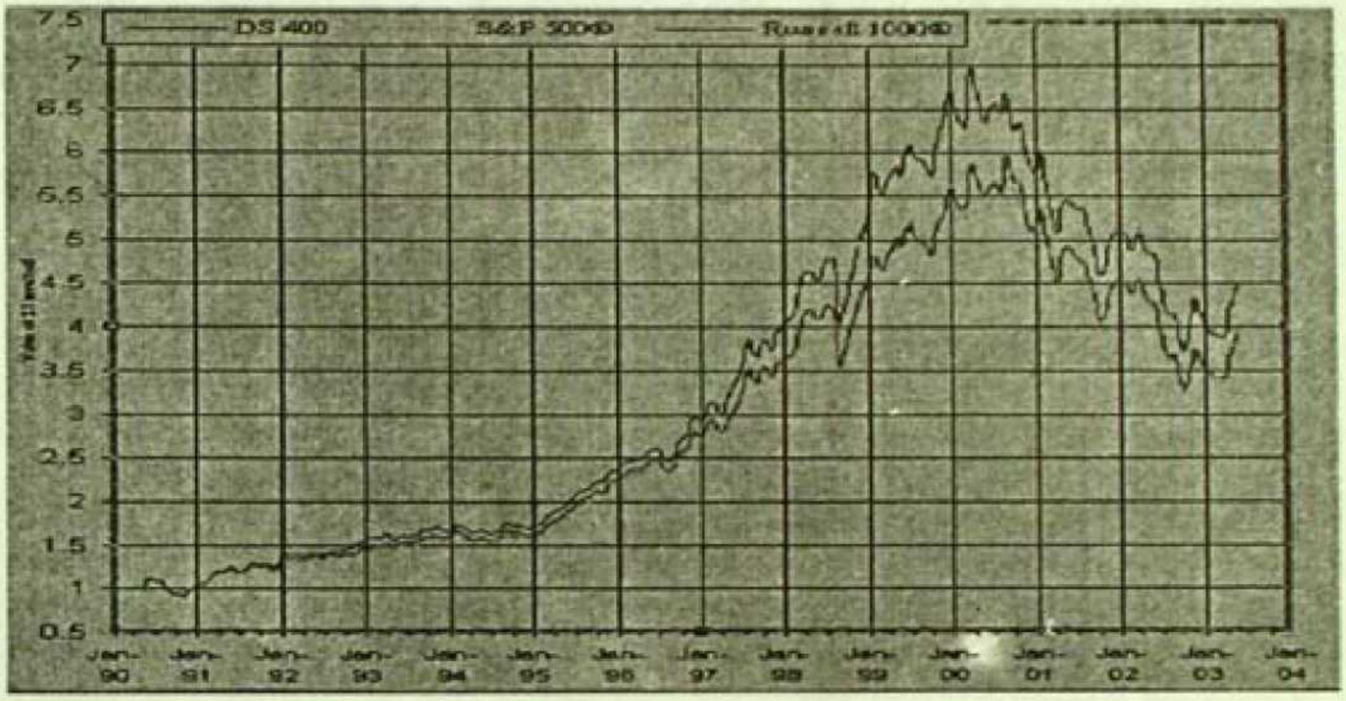
Weisenberger, a financial reporting agency, completed an analysis in the year 2000 that shows results similar to those obtained by SRI World Group (www.socialinvest.org, 2001). Of the 48 socially and environmentally screened mutual funds reviewed, 25 performed in the top quartile of their respective categories (i.e., 52%) for the three years ending December 31, 2000.

Apart from ethically screened mutual funds, the outstanding performance of ethical indexes supports the notion that conscientious investing does not necessarily require one to compromise with the financial gains. On the contrary, as some financial analysts predict, companies that pay close attention to social and environmental risks and opportunities will outperform the competition in the long run. The following instances drawn from socially responsible indices managed in the USA, Western Europe and Canada, having a track record of 1-10 years, helps substantiate the above-average perfor-

mance of SRI (Feltmate et al., 2001):

1. The Domini Social Index 400 (DSI 400), an index of 400 primarily large-capital U.S. corporations selected on the basis of a wide range of social and environmental criteria, has consistently outperformed its peer, the S&P 500, sometimes by as much as 180 basis points. The performance of Domini Social Index 400 in terms of volume invested in US $, contrasted against the S&P 500 and Russell 1000 for the period 1990 to 2004, is shown in Figure 3.
2. The Dow Jones Sustainability Index (DJSI) outperformed the Standard & Poor's 500 during the 1990s by about 15 per cent.
3. The Dow Jones Sustainability Group Index (international focus) yielded a total return of 139 per cent, versus 95 per cent for the benchmark Dow Jones Global Index, between 1993 and 2000.
4. Storebrand Scudder Environmental Value Fund (European focus) outperformed the Morgan Stanley Capital International World Index (MSCIWI) by 8 per cent between 1996 and 1998 (due to changes in portfolio construction, the MSCIWI was not recognized as an appropriate benchmark after 1998);
5. The Jantzi Social Index (Canadian focus) outperformed the S&P/Toronto Stock Exchange (TSE) 60, TSE 100 and TSE 300 by approximately 2–3 per cent between January 1, 2000 (launch) and March 31, 2001.
6. Innovest's review of performance data shows that, depending upon the sector, the EcoValue 21 (U.S. focus) performance-rating model demonstrated that companies with above-average environmental performance scores have consistently outperformed below-average companies by 300 to 2,500 basis points per annum.
7. The trend of Goodmoney Industrial Average and the Dow Jones Industrial Average since 1977, also show that SRI funds on average have earned higher returns than others. Goodmoney is an index of 30 shares chosen to cover the same industries as the shares in the DJIA but screened according to ethical criteria. Both of these numbers refers to averages. They suggest there is no cost to SRI. On average, there may even be a gain.

Figure 3
Relative performance of Domini Social Index 400 and Standard & Poor's 500



(3) Does superior SRI performance reveal the "irrationality" of economic man?

Superior performance of SRI challenges the practice of interpreting the "rational man rule" of fiduciary responsibility in a narrow way, wherein all non-financial considerations are considered irresponsible. Given the evidence that social and environmental factors often have long-term financial impact, it becomes a matter of financial prudence to consider them.

It is necessary to recognize that there are many conceptions about rationality, each with its inherent strengths and weaknesses (Frank, 2004, pp. 45-47). Two specific conceptions include the self-interest standard and present-aim standard. The self-interest conception of rationality holds that a person is rational if he is efficient in the pursuit of self-interested objectives. The modified version of the self-interest conception is interpreted to refer to only the acquisition of material wealth, aesthetic pleasures, and other less materialistic concerns. But, in all cases, the self-interest model excludes concerns about duty, honour, well-being, and other conspicuously "unselfish" motives. The greatest strength of the self-interest model is its testable predictability. Given the opportunities that a self-interested person faces in a given situation, the model predicts

what the actor will do. The greatest shortcoming of the model is that much of real-world human behaviour is starkly inconsistent with its assumptions. On the other hand, the present-aim model holds that a person is rational if she is efficient in the pursuit of whatever objectives she holds at the moment of action. This standard does not attempt to evaluate the objectives themselves. Its beauty lies in its ability to accommodate the plurality and diversity of goals that people actually hold. However, its major drawback is its inability to make testable predictions about human behaviour.

Rationality, in both the self-interest and present-aim conceptions involves the choice of efficient means to achieve goals. Adaptive rationality (Frank, 2004, p.47) incorporates the most attractive features of both the self-interest and present-aim standards of rationality while eliminating the deficiencies of each. In doing so, it helps to contain the conflict between rationality and morality. Adaptive rationality retains the requirement that people must be efficient in their choice of means as also in their choice of goals. This is unlike the other two conceptions that take goals as given. Adaptive rationality regards goals themselves as objects of choice that should be subject to a similar efficiency requirement. By accommodating preferences for moral behaviour, adaptive rationality narrows the inherent inconsistency between rationality and morality. At the same time it preserves the possibility of a distinction between the two concepts because everyone does not need to have moral preferences under adaptive rationality, and if people's preferences are costly to discern there will at least be some individuals whose preferences are not moral. In this sense, the adaptive rationality standard is very different from the self-interest standard that holds rationality and morality to be incompatible (Frank, 2004, p.51). The adaptive rationality model helps establish that morality (i.e., the willingness to put community interests ahead of one's own at least some of the time) is consistent with individual survival and even conducive with it. It helps sustain a teleological or consequentialist explanation for what is considered morally acceptable. Thus, it helps individual decision-makers in different capacities to confront different ethical dilemmas in diverse domains of human activity, and solve their commitment problems (Frank, 2004, pp. 56-57). The adaptive rationality standard does not encourage the simplistic assumption that community interest

and individual interests are always the same. Rather, it emphasizes the tension between these two levels in environments in which individual propensities are costly to assess. This implies that the ambiguity between the concepts of rationality and morality are unavoidable even under this model.

Adaptive rationality may be considered an appropriate conceptual framework as compare with the self-interest model in accounting for the rational basis of socially responsible investor behaviour vis-à-vis the choice for SRI-based portfolios. Typically, a socially responsible investor hopes 'to do well by doing good' (Heal, 2001). They seek to harness their influence in capital markets towards social and environmental goals that transcend return on investments, in order to strengthen incentives towards ethical funds management. In so doing, they aim to arrive at a trade-off between morality and rationality by means of exercising investment choices, in their various social roles as follows:

- *Buy, Better Companies* - Applying portfolio standards results in a choice of "better" companies
- *Be Better Owners* - Shareholder dialogue empowers investors as owners to participate in holding corporations to a high standard.
- *Be Better Neighbours* - Community Development Financial Institutions invest in people by providing funds for small businesses, job creation, first-time homeownership, literacy and more.
- *Be Better Citizens* - Public policy initiatives ensure permanence to the work that investors undertake.

By virtue of their investment choices, socially responsible investors are motivated to strike a balance among a spectrum of investor goals that include (1) alignment with personal values, (2) long-term profitability of the investment and (3) vision of a better tomorrow. Accordingly, these investors derive "SRI premium" by including positive and negative social/environmental externalities affecting share prices into the SRI decision-making analysis, whereas these issues are often overlooked by traditional investment analysis. Companies continually being fined for excess pollution and other environmental transgressions, for example, face real risks, which traditional analysts might omit from their analytical framework. As a case in point, during the 1970s, SRI investment analysts eschewed nuclear power, even as traditional investors

were enamoured by its potential. Three decades later, SRI has been proven correct and nuclear power investors have suffered considerable losses. Similarly, the boycott of a company for social or environmental reasons can pose a serious business risk that socially responsible investors are much more likely to consider long before non-SRI-oriented investors. The same is true of new investment opportunities. Social investors have been quick to embrace organic foods and renewable energy, both of which have yet to be fully understood by traditional investors despite annual growth rates of over 20%.

(4) Does SRI really promote ethical corporate behaviour?

Despite a growing body of statistically rigorous empirical research that reveal SRI's ability to outperform conventional approaches, there are sceptics in equal measure who point to research suggesting alternative explanations for the positive performance. This suggests that the performance of SRI funds, and more so its analysis, is a puzzle of sorts. A Wharton School study found that SRI mutual funds underperformed portfolios representing a broader fund universe. A study of 103 German, U.S., and U.K. SRI mutual funds found no significant difference between their returns and those of unscreened funds (SIF, 2003; www.sri-advisor.com; www.sristudies.org).

While SRI funds are not usually among the top-bracket performers, they do consistently perform above average. Given the constraints on selection of shares posed by ethical guidelines and screens, this should be surprising. As noted, several recent studies report that environmental and human rights performance is a good predictor of overall performance. There are several possible reasons for the performance edge that SRI funds appear to provide. One is that technology stocks meet their screening criteria - the likes of Intel and Microsoft are free from association with pollution, exploitation, alcohol and tobacco – so SRI managers have inadvertently been steered towards the sector that has performed best in the recent bull market. In fact, many sophisticated detractors recognize SRI's competitive performance, but attribute it to other factors. Foremost among them is Michael Lipper, founder and Chairman of Lipper Analytical Services, a leading Wall Street provider of fund information and analysis. Lipper attributes SRI's superior financial performance to "sector bias," dismissing any positive contribution stemming from SRI analysis. He

argues that socially responsible investments are under-weighted in basic manufacturing industries and energy sectors, favouring instead, sectors such as technology and services that are generally cleaner and less likely to have complex environmental and social impacts. Coincidentally, it is these sectors, which led the bull market of the late 1990s. (Camejo, 2002).

SRI has influenced corporate behaviour on numerous social and environmental issues that bring to bear on the sustainability of business practices. Although the evidence is abundant, it is largely anecdotal due to the unavailability of broad, rigorous data. This stems in part from the analytical difficulty in separating SRI influence from the effects of concomitant factors like regulatory changes, government actions and the work of advocacy groups (IFC, 2003, p.6). Significantly, social investors also have caused companies to produce a substantial volume of corporate non-financial disclosure on social and environmental performance. This in turn has helped socially responsible investors and other stakeholders to compel companies to act positively on a range of issues, such as improving human resource policies in favour of minorities and women, recognising the importance of global climate change and its material impact on business, and accepting responsibility for the working conditions of "sweat-shop" workers.

For the most part, the performance of SRI funds seems to be at least above average. The studies showing positive correlation claim to show that SRI funds offer returns as good as those on other funds and, indeed, that performance on environmental and human rights criteria is a good predictor of the overall financial performance of companies. But are socially responsible investors really doing good and attaining their ethical goals as well? What may seem like a rhetorical question in fact requires examination. If we assume that SRI funds are able to attain above-average returns simply by investing substantially in technology stocks, then their ethical leverage has actually been marginal. They have run with a successful sector, delivering no specific ethical signal to managers. If we adopt another of the theories, that superior environmental and human rights performance pays off financially, and that ethical investors have benefited from this, it is again not clear that the success of SRI funds has given an ethical message to managers. In this case, manager's incentives

to act ethically have been primarily conventional, in that they are triggered by financial gain and not linked to the behaviour of SRI funds. Finally, if we assume that ethical investors are reaping what they have sown as ethical consumers and that the behaviour of consumers in favouring retail companies with superior ethical records has contributed to the superior financial performance of these companies, then it may be argued that the combined operations of ethical consumers and investors have had a positive ethical impact on corporate behaviour. The truth probably contains a little of each of the last two arguments, so that ethical investors have had an impact, albeit a low one, on corporate behaviour.

An interesting possibility is that socially responsible behaviour can serve as a surrogate for general managerial competence and there are several studies that confirm this. There is also the fact that socially responsible investing interacts with similar behaviour by consumers, each reinforcing the former. This is part of the process of consumers thinking about all dimensions of their choices.

It is not clear yet, exactly, what effect SRI is having on the ethical quality of corporate governance. Certainly shareholder activism by socially influential companies does go to reaffirm the strength of the corporate governance movement.. However, socially responsible funds adopting a passive role towards their shareholdings could have little influence beyond minor reductions in the cost of capital to favoured companies.

If this were the entire explanation, it would imply that the superior performance is a coincidence that may not be repeated. However, data indicate that there is more than an accident at work here. Even on a sector-by-sector basis, shares of companies with a superior environmental or human rights record appear to outperform—clean chemical companies will outperform dirty ones, clean oil companies will outperform dirty oil companies, and so on. This type of finding suggests a deeper and more intrinsic connection between responsible management and superior returns. In the case of the environment, Heal (2001) points to evidence that superior performance is indeed linked to higher profits. Pollution is essentially waste, and reducing it or finding ways to reuse waste can lead to reduced inputs and higher profits. Companies such as Dow Chemicals, DuPont and Anheuser-Busch have found improved environmental performance to be a source of profits.

11. Epilogue: Can SRI serve as a reliable guiding light?

In conclusion, it is necessary to explore whether ethically oriented investors can rely upon socially responsible investment (SRI) as a reliable guiding light for manifesting their investment priorities, given the mixed responses from available evidence, relating to the questions raised earlier. This issue needs to be highlighted, considering that there could be disparity in CSR ratings published by various rating agencies that provide a measure of a company's composite performance in terms of environmental, social and economic parameters.

To cite an instance of rating conflicts and possibly confusing signals for potential investors, we take the case of two CSR rating agencies—Innovest Strategic Value Advisors and Oekom that completed environmental evaluations, of the Japanese auto major, Toyota, in the year 2003. In its EcoValue '21 environmental rating, Innovest Strategic Value Advisors granted Toyota an "*AAA*" rating, the highest possible score on a scale that mimics bond rating, ranging from AAA to CCC. However, in the environmental section of its Corporate Responsibility Rating (CRR), Munich-based Oekom Research gave Toyota a "*C*" on a scale that mimics school grades, ranging from A^+ to D^-. Furthermore, Toyota was placed *2nd* of the 16 auto companies that Innovest rated, while it came *16th* of the 20 auto companies that Oekom rated.

To be sure, both Innovest and Oekom are highly respected rating firms. In a bid to reinforce the business case for sustainable investment, Innovest has been by trying to identify in almost all industry sectors, that environmentally proactive companies fare better in the financial markets. Oekom has traditionally focused exclusively on the evaluation of corporate social/environmental performance, and has fairly recently begun to correlate these to corporate financial performance. The eco-efficiency subsection of the two ratings represent a significant deviation: Oekom assigns Toyota a D^-, while Innovest says that Toyota has "superior eco-efficiency overall". The difference may be accounted for in terms of each firm scoring factors when the company does not disclose the information necessary to make a proper assessment. So in the absence of explicit information, Oekom rates the company as if it has worst performance, even if the actual performance may be average or even superior. On the other hand, Innovest's

opinion is that "lack of information does not lead to an automatic penalty in terms of the score assigned". It should be a case-by-case assessment.

So what do we conclude about Toyota's corporate sustainability profile? Is one screen "right" and the other "wrong"? If so, which is more reliable? In this connection it may be apt to allude to what psychologists refer to as "the Rashomon effect" for describing multiple different interpretations of the same phenomenon, after Akira Kurosawa's 1950 Japanese film *Rashomon*. Viewers of *Rashomon* are obviously tempted to legitimize one story over another, but Kurasawa skillfully presents each narrator as potentially reliable while also showing reasons why all the narrators may skew the facts to present their own selves in a sympathetic light. *Rashomon* leaves viewers with the impression that the impulse to authorize one interpretation over another is futile. Hearing the multiple different interpretations gives us greater insight, both into the event itself and into the motives of the narrators. Similarly, ethically aware investors may find it confusing to hear seemingly contradictory reports about the social/environmental dimensions of corporate performance, but they would certainly be wiser to consider the breadth and diversity of available information upon which to base their investment decisions.

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Ethical Investing – the Gateway to a Sustainable Society

Tanupa Chakraborty

Abstract

Ethical Investing, known as Socially Responsible Investing (SRI), is one of the key tools for building a sustainable future. By integrating environmental, social and ethical considerations such as social justice, human rights, non-polluted environment etc. with financial ones for investment decisions, ethical investing allows investors to shoulder a broad responsibility for a better future. Socially conscious investors, no matter how large or small, are most satisfied today with investments that reach beyond purely financial goals to address a need to make a difference. Thus, SRI is not only about making money but also making a difference with one's money. Since there has been an upsurge in ethical investing recently, this paper examines the definition of ethical investing, the issues and strategies involved therein, the SRI market and its evolution and growth.

Key words : Ethical investing; socially responsible investing; screening; shareholder advocacy; community investing.

1. Introduction

Ethical Investing, commonly known as Socially Responsible Investing (SRI), has experienced a strong surge in popularity among investors in recent years. Ethical Investing is about achieving one's financial goals and at the same time encouraging changes in corporate behaviour in order to have a positive impact on the society at large. It requires the investors, who are socially conscious, to invest capital within the traditional market mechanisms and assist in the creation of a just, sustainable and healthy society i.e., to enhance quality of life for all. By assessing a company's performance

on triple bottom line (TBL) — social, economic and environmental (SEE) issues — and investing in companies that score high on these issues, socially aware investors ensure that the business fulfils its commitment to sustainable development in terms of improvement in the quality of life of all stakeholders —investors, customers, employees and their families, the local community and the overall society.

The industrial proliferation, growing urbanisation and population explosion over the past three decades have led to inequal income distribution, environmental pollution and lack of housing, childcare and healthcare facilities across the world. According to an estimate by the World Bank's Vice-President for East Asia and the Pacific Region, if economic growth turns out to be 5% annually until 2008 and remains equally shared, then the number of people living in poverty in East Asia, including China, would fall from 278 million to 72 million. A slower growth of only 4% and with less equal income distribution would leave more than twice as many i.e., 182 million in poverty in the region by 2008. Again, it has been estimated that discharges of industrial pollution are likely to increase tenfold in the next two decades if business is carried on at its usual pace. Thus, in order to ensure that people live in a safe, unpolluted, healthy world and in a prosperous society, companies are required to play a bigger role by not only improving the economic well-being of the masses but also providing affordable housing, health, education and childcare facilities and addressing the environmental challenges effectively. This is why investor support to such socially responsible welfare measures is even more important today. There is, however, a myth regarding ethical investing. It is widely believed that social investors do not earn a better return than the common investors. But a common finding across many research studies is that socially responsible investments yield a competitive return in comparison to conventional investments and hence socially aware investors can do very well by employing a triple bottom line approach to investing.

Since, ethical investing is a relatively new concept in the investment world and is growing globally, this paper aims at providing an insight into ethical investing as the means of creating a sustainable society.

The remainder of the paper has been organized as follows. Section 2 briefly discusses the concept of ethical investing. The

evolutionary path of ethical investing has been traced in Section 3. The various SRI strategies have been discussed in Section 4. This is followed by a discussion on growth of SRI in Section 5. Finally, conclusions are drawn in Section 6.

2. Ethical Investing — The Conceptual Framework

Ethical Investing, or SRI, is an investment process that considers the social and environmental consequences of investments, both positive and negative, within the realm of rigorous financial analysis. That is, SRI may be defined as investment decision making which allows investors to take into account wider concerns, such as social justice, economic development, peace and a healthy environment, besides the conventional financial considerations. In short, SRI refers to the process of identifying and investing in companies that meet certain standards of Corporate Social Responsibility (CSR). This naturally leads us to the definition of corporate social responsibility which means open and transparent business policies and practices that are based on ethical values and respect for employees, communities, and the environment in order to deliver sustainable value to all the stakeholders and to the society at large. Thus, SRI, whether described as ethical investing or social investing or mission-based investing or triple bottom line investing or socially aware investing, reflects an investing approach that integrates social and environmental concerns with the investors' financial needs into investment decisions.

There are two complementary kinds of investor motivation to SRI :

- integrating personal values with investment decisions i.e., investing money to work in a manner that is more closely aligned with and reflective of investors' personal values and social priorities ; and
- combining societal concerns with investment decisions i.e., investing money to support and encourage social change strategies and hence catalyze the movement towards a more economically just and environmentally sustainable world that works well for all inhabitants.

Whatever might be the motivation, the most successful SRI options should thus provide investors with dual returns :

- financial returns that compare well to, and often exceeding, the returns of conventional investments ; and
- social and environmental rewards that go beyond the direct financial return to the investor.

The preceding discussion naturally raises the question as to how a socially responsible investor can distinguish himself from a common investor. The answer lies in the social and environmental rewards that a socially conscious investor gets for taking into consideration various extra-financial criteria like corporate governance, composition of the board of directors, political involvement in business decisions, environmental and social impact of company's products, worker's / contractor's rights, community development etc. in investment decisions.

The SRI market is split between retail and institutional investment. Retail investment market deals with the individual investor's savings and investments while the institutional investment market covers the following :

- companies investing their own funds (i.e., shareholders' fund, equity) e.g. insurance companies, banks, corporations etc. ;
- churches, foundations, non-government organizations (NGOs), universities and charities whose investment capacity may be less than that of the first category of institutional investors but who hold an "individualised" vision of ethics ;
- pension funds or any other retirement financing system with multiple stakeholders who invest money on behalf of others.

Thus, social investors include individuals and institutions such as corporations, insurance companies, universities, hospitals, foundations, churches and other religious institutions, pension funds, mutual funds and non-profit organizations.

With a view to promoting the concept, practice and growth of SRI by raising awareness of the opportunity and relevance of SRI towards economic development, fostering the creation of high quality SRI products and services, reforming the laws and policies to reward sustainable enterprises and providing training and support services to build momentum for and raise standards of SRI practice, several Social Investment Forums (SIFs) have been established worldwide. Such SIFs, with

financial advisors, analysts, protfolio managers, banks, mutual funds, researchers, foundations, NGOs, academic institutes, community development organizations and public educators as their members, are known by different names in different regions :

- U.S.A. — Social Investment Forum (SIF)
- Canada — Social Investment Organisation (SIO)
- U.K. — UK Social Investment Forum (UKSIF)
- Europe — The European Social Investment Forum (EUROSIF) [it works closely with several national SIFs across Europe]
- Asia — The Association for Sustainable & Responsible Investment in Asia (ASrIA)
- Australia — Ethical Investment Association (EIA)

Still, a number of national SIFs are either in the early stages of development or are in the process of being formed. Thus, the future of ethical investing appears even more brighter today.

3. Evolution of Ethical Investing

The history of ethical investing stretches back many hundreds of years and is rooted in Jewish, Christian and Islamic traditions. In biblical times, Jewish law laid down many directives about how to invest ethically. In the mid 1700s, the Methodists (i.e., protestants) noted that the use of money was the second most important subject of New Testament Teachings of Christianity.

Over centuries, many religious investors, whose traditions embrace peace and non-violence, have actively avoided investing in enterprises that earn profit from products designed to enslave, harm or kill fellow human beings. Many others have still avoided "sin" stocks i.e., investing in companies that belong to alcohol, tobacco and gaming industries. It is likely that the movement of social responsibility in investing was originally initiated as early as the 1920s when the Methodist Church in North America decided to invest in the stock market although it was previously viewed as a form of gambling. However, they began avoiding 'sin stocks', especially those that were involved in alcohol or gambling. The Quakers (i.e., the members of Society of Friends) soon followed, but were

especially keen to avoid investing in weapons manufacture, slavery or war.

The modern roots of ethical investing can be traced through many civil liberty and civil rights campaigns of the previous century, most notably during the impassioned political climate of the 1960s. During this tumultuous decade, a series of social and environmental movements ranging from civil rights and equality for women to management and labour issues and to anti-war and anti-nuke convictions, had increased the awareness around issues of social responsibility. During 1970s, public demand for SRI really took off in America and then started to spread over across continents with the launch of Pax World Fund in America in the year 1971 as a reaction against the Vietnam War. Disgruntled with the manufacturers of Agent Orange, the defoliant sprayed on Vietnamese jungles which caused havoc with farming and health and resulted in deformed human bodies, American investors created the Pax Fund to prevent a re-occçurrence of such an event. The first ethical fund in the U.K. was launched in 1984.

The ranks of socially concerned investors grew dramatically through the 1980s as millions of people, churches, universities, cities and states focused investment strategies on pressuring the white minority government of South Africa to dismantle its racist system of apartheid. Thereafter, with the Bhopal and Chernobyl gas tragedy incidents and vast amounts of new information about global warming, ozone depletion and the concomitant risks to life on the planet coming into public view, the environmental issues moved to the forefront of social investors' minds. The result being the creation of the first ecology fund in the U.K. in 1988 and in the U.S.A. soon after.

More recently in the 1990s, growing number of corporate scandals, issues of human rights and healthy working conditions in factories around the world have become rallying points for investors with dual objectives for their investment capital. However, SRI began a new phase in the 1990s. Instead of avoiding stocks, the newer SRI strategies are seeking ways to include the 'best' or most sustainable companies in their portfolios thereby leading to a more engaged and active approach to fund management by investors. At the root of this new approach are social activists, the public' broader consciousness of sustainable development issues and a novel

perception of social responsibility by governments, corporations and investment institutions.

4. Socially Responsible Investing (SRI) Strategies

Socially Responsible Investing employs three basic strategies in order to promote socially and environmentally responsible business practices and hence encourage improvements in the quality of life throughout society. These strategies are :

- Screening,
- Shareholder Advocacy or Shareholder Engagement, and
- Community Investing.

(i) Screening : It refers to the practice of inclusion or exclusion of corporate securities in investment portfolios or mutual funds based on ethical, social and / or environmental criteria. Socially concerned investors generally seek to own profitable companies with respectable employer-employee relations, strong records of involvement in community development, excellent pro-environmental policies and practices, safe and useful products and respect for human rights around the world. Conversely, they often avoid investments in those firms that fall short in these areas. In order to evaluate the publicly traded securities for effective screening, social investors may, on their own, or ask their investment advisors to make a qualitative analysis of corporate policies, practices, attitude and societal impact besides the traditional quantitative analysis of profit potential. There may also be corporate ratings so that companies are selected on a "best of class" basis.

Screening may be of two types :

(a) *Avoidance or Passive or Negative Screening* : In this type of screening, unacceptable shares are excluded from the portfolio, i.e., social investors in avoidance screening are more focused on tailoring portfolios to a particular set of values and moral principles by avoiding investments in companies that violated those values. Some noted examples of avoidance screening have been the creation of Pax World Fund, considered to be the first SRI mutual fund, in 1971 in opposition to militarism and Vietnamese war and divesting from companies doing business in South Africa in the 1980s

and early 1990s in support of anti-apartheid movement. Today, tobacco, alcohol, gambling and weapons manufacture appear as the most commonly used negative screens.

(b) *Active or Positive Screening* : In this kind of screening, social investors actively select companies with superior social and environmental performance records and good corporate citizenship for investment purposes. This practice is based on the identification of companies that meet or exceed certain standards for corporate conduct set for improving corporate social and environmental performance or stand out as the "best in class" in an industry. Some commonly used positive screens are good labour relations, effective environmental management systems, good corporate governance, equal employment opportunity for women, human rights and the like. These screens are used to eliminate some companies from consideration and to monitor those companies that are selected for the portfolio.

(ii) Shareholder Engagement or Shareholder Advocacy : As owners of the company, shareholders have both a right and a responsibility to take an educated interest in the company's performance, policies, practices and social and environmental impact. Shareholder advocacy or shareholder activism describes the actions that shareholders take, in the capacity of social investors, to positively influence corporate behaviour. It refers to the efforts made by the socially conscious shareholders to work cooperatively and steer management on a course that they believe will improve financial performance over time and enhance the well-being of all the company's stakeholders — customers, employees, vendors, communities and the natural environment as well as the stockholders themselves.

The weapons in the armoury of shareholders to promote good corporate citizenship and improve corporate practices regarding executive compensation, governance, social and environmental policy and labour rights issues are :

- letter writing to management ;
- negotiating or initiating dialogue with top executives regarding issues ranging from environmental risk and workplace standards to human rights violations and a host of corporate governance concerns ;

- filing and voting on shareholder resolutions (proposals) subject to fulfilment of minimum shareholding requirement to do so ;
- attending Annual General Meetings (AGMs) and speaking on behalf of an issue ;
- voting in favour of responsible management at AGMs ; or
- as a last resort, joining in a class action legal suits against the company.

Of these, shareholder resolutions hold the key to promoting socially responsible behaviour of companies because much of the issues that emerge as resolutions mature into good faith dialogues with companies thereby leading to withdrawal of such resolutions and incorporation of significant changes in corporate policies and practices. Thus, resolution filing act as an indirect pressure tactic on management to comply with the social, environmental and ethical concerns of the shareholders. The shareholder resolutions can be of the following three types :

- *social responsibility resolutions* addressing issues like company policies, disclosures, and practices regarding the environment and toxins, health and safety, race and gender, tobacco, labour abuses, militarism and human rights ;
- *corporate governance resolutions* addressing issues such as confidential voting, repealing classified boards (and creating annual elections of directors), compensation of directors and executives, board composition, severance pay, anti-takeover provisions, reincorporation, and the accounting and indexing of stock options ; and
- crossover proposals covering issues such as executive pay tied to social benchmarks, board diversity, or reviews or limits on executive compensation i.e., incorporating both corporate governance concerns and social policy / corporate responsibility issues.

Thus, an effective SRI strategy to bring about changes in corporate policies or practices is long-term, active engagement by shareholders with corporate management.

(iii) Community Investing : It refers to financing which creates resources and opportunities for economically disadvantaged communities that are underserved by traditional financial

institutions. It provides access to credit, equity, capital and basic banking products that these communities would not otherwise have at their disposal. Community investing maximises the social impact that investors can have with their investments by making it possible for local organizations, where their capital is directed, to :

- provide financial services to low-income individuals ;
- create jobs that pay a living wage for low- and moderate-income community residents ;
- supply capital for locally-owned or women-owned or minority-owned small businesses ;
- provide vital community services such as child care, affordable housing and health care facilities ;
- create opportunities for low-wealth individuals to build assets ; and
- provide important services such as education, mentoring and technical support for developing entrepreneurs.

These local financial service organizations, also known as Community Development Financial Institutions (CDFIs), prioritize people who have been denied access to capital and provide them with opportunities to borrow, save and invest in their own communities to alleviate poverty.

A social investor can invest in following four types of CDFIs :

- *Community Development Banks (CDBs)* that would offer services available at conventional banks, including savings and checking accounts, to lower-income communities ;
- *Community Development Loan Funds (CDLFs)* that would make loans available to small businesses, developers of affordable housing, and community services such as childcare by pooling investments and loans provided by social investors at below market rates ;
- *Community Development Credit Unions (CDCUs)* that would provide all kinds of services available at conventional credit unions to all its account holders ; and
- *Community Development Venture Capital Funds (CDVCs)* that would use the tools of venture capital to create jobs, entrepreneurial capacity and wealth and hence help improve the livelihood of low-income individuals and economies of distressed communities.

Thus, the three ethical investing strategies, discussed above, enable a social investor to influence ethical, social and environmental behaviour of the companies in which they invest.

5. Growth of SRI

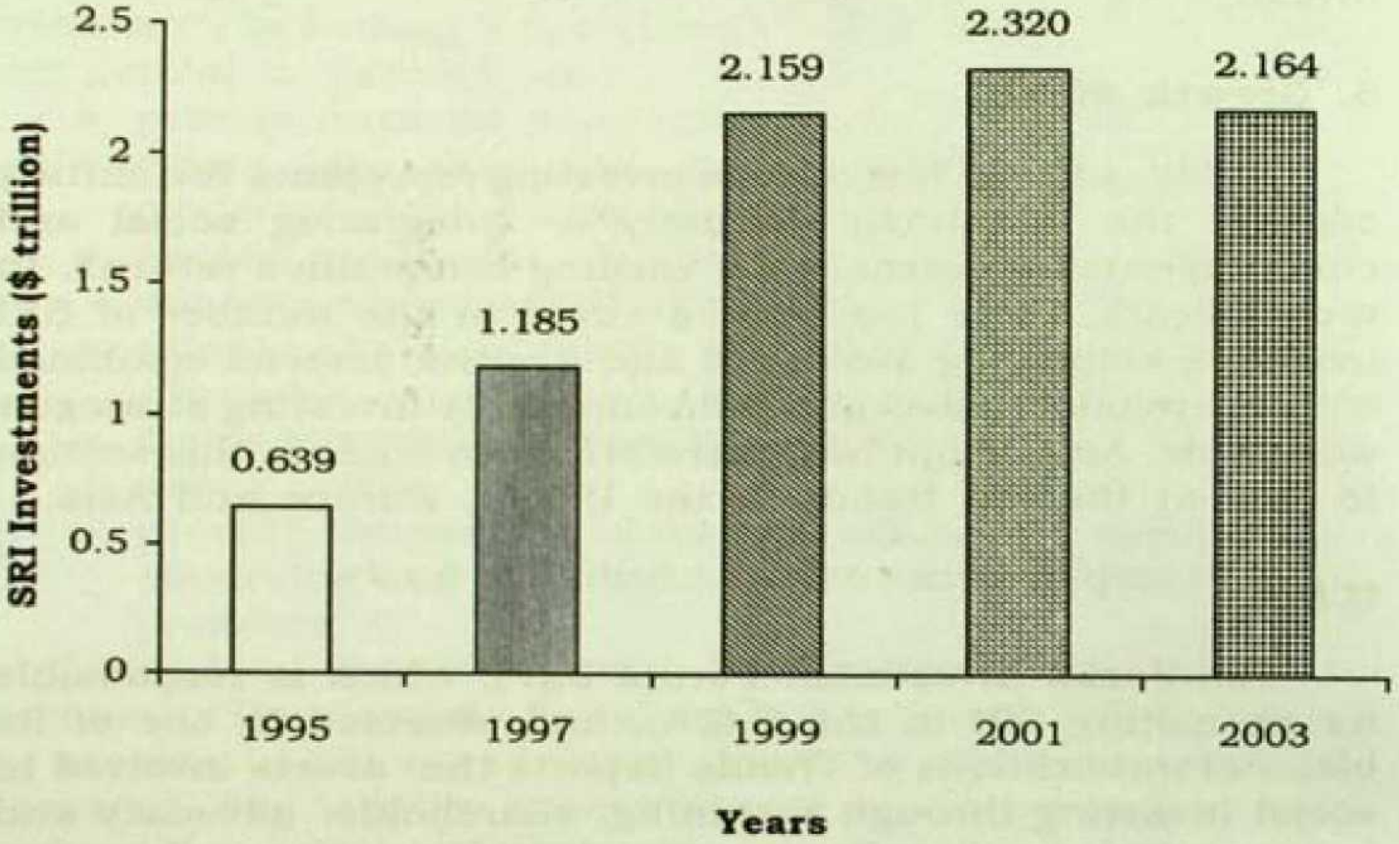
Today, socially responsible investing represents the cutting edge of the investment industry — integrating social and environmental concerns while earning competitive returns. In recent years, there has been a surge in the number of SRI investors employing avoidance and positive screens combined with shareholder advocacy and community investing strategies worldwide. An attempt has, therefore, been made in this section to look at the SRI trends in the U.S.A., Europe and Asia.

U.S.A.

The Social Investment Forum (SIF), which is responsible for promoting SRI in the U.S.A., had observed in one of its biennial publications of Trends Reports that assets involved in social investing through screening, shareholder advocacy and community investing, have grown 40% faster than all professionally managed investment assets in the U.S. between 1995 and 2003. SRI experienced 240% growth against 174% general market growth from 1995 to 2003. The Forum further observed that, today, more than one out of every $ 9 under professional management in the U.S.A. is involved in SRI. The $ 2.16 trillion managed in 2003 by the major investing institutions, including pension funds, mutual fund families, foundations, religious organizations and CDFIs, using one or more of the three core SRI strategies accounted for 11.3% of the total $ 19.2 trillion in investment assets under professional management in the U.S.A., which is nearly four times the $ 0.639 trillion the Forum identified in 1995. The following chart captures the growth of SRI between 1995-2003 in the U.S. on the basis of data provided by SIFs Trends Report, 2003.

Fig. (1)

Growth of SRI Investments in U.S.A. (1995-2003)
[in $ trillion]



[Basic data source : SIFs Trend Report, 2003]

The growth of socially screened portfolios has been even more dramatic — from $ 0.165 trillion in 1995 to over $ 2 trillion in 2003 — an increase over 1153% in 8 years. The SIFs Trend Report, 2003 identified that total assets under portfolio management employing one or more social screens rose 7% between 2001 and 2003, i.e., an increase from $ 2.01 trillion in 2001 to $ 2.14 trillion in 2003, whereas the broader universe of all professionally managed portfolios fell 4% during the same period.

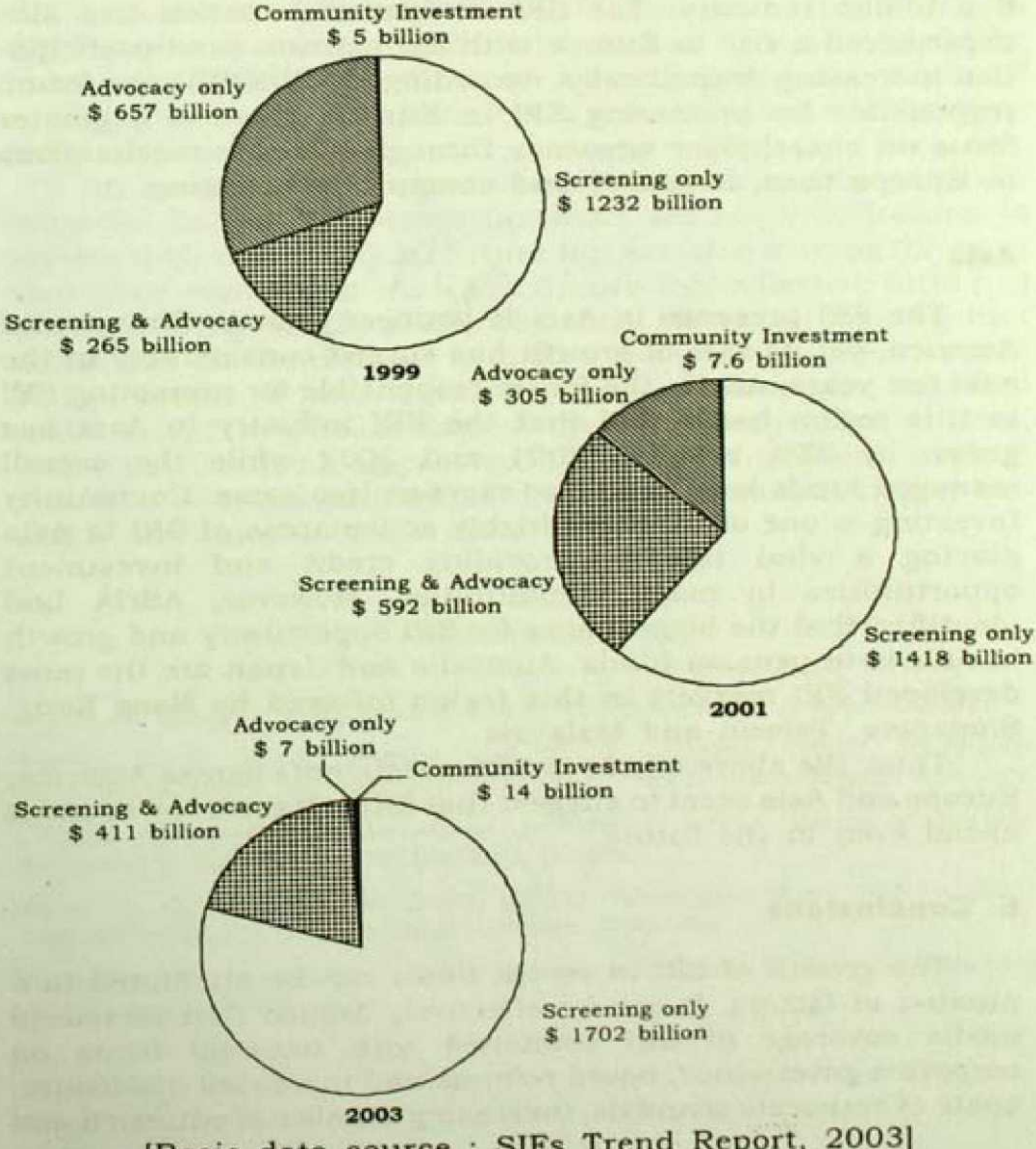
As regards shareholder advocacy activity, the Forum observed that it increased by 15% between 2001 and 2003, growing from 269 resolutions filed in 2001 to 310 in 2003. Of the $ 2.14 trillion in all socially screened portfolios in 2003, $ 0.441 trillion are in portfolios controlled by investors who are also involved in shareholder advocacy on various social and environmental issues.

Community investing in the U.S.A. climbed 84% between 2001 and 2003 with the assets held and invested locally by

CDFIs based in the U.S.A. increased from $ 0.0076 trillion in 2001 to $ 0.014 trillion in 2003.

The following pie-charts will help in understanding the changing patterns in SRI strategies between 1999-2003.

Fig. (2)
SRI Investments in U.S.A. by Strategy (1999-2003)
[in $ trillion]



[Basic data source : SIFs Trend Report, 2003]

Thus, it is clear that SRI has risen dramatically in the U.S.A. despite the sluggish market conditions that have resulted in downturn in assets in world investments.

Europe

Ethical investing has become the fastest growing sector in Europe. As for example, SRI retail market in the U.K. expanded tenfold over the past decade to become an approximately U.S. $ 6 billion industry. The SRI institutional market has also experienced a rise in Europe with the pension fund participation increasing dramatically. According to EUROSIF, the forum responsible for promoting SRI in Europe, there is a greater focus on shareholder advocacy through dialogue mechanisms in Europe than screening and community investing.

Asia

The SRI presence in Asia is younger than in Europe and America, yet its rate of growth has surged considerably in the past few years. ASrIA, the forum responsible for promoting SRI in this region had found that the SRI industry in Asia has grown by 32% between 2001 and 2002 while the overall managed funds have remained more or less same. Community Investing is one of the most highly active areas of SRI in Asia playing a vital role in providing credit and investment opportunities in many communities. However, ASrIA had identified that the biggest area for SRI opportunity and growth in Asia is in pension funds. Australia and Japan are the most developed SRI markets in this region followed by Hong Kong, Singapore, Taiwan and Malaysia.

Thus, the above trends in SRI investments across America, Europe and Asia seem to suggest that SRI will continue to surge ahead even in the future.

6. Conclusions

The growth of SRI in recent times can be attributed to a number of factors. It can be effectively argued that increased media coverage of SRI combined with national focus on corporate governance, board reforms and increased disclosure, spate of corporate scandals, increasing number of educated and

informed investors, increased participation of women in decision making and changes in legislation have moved SRI issues and performance to the mainstream. But, the most important reason for the accelerated growth of SRI could be the launch of several socially responsible investing indexes that continue to outperform the normal market indices by a sufficient margin. The consistent good performance of Dow Jones Sustainability Indexes (DJSI), the first SRI global index launched in 1999, followed by Domini Social Index (DSI), FTSE4Good Index, Citizen's Index (CI) and more recently Maala SRI Index launched in Israel and Astralian SAM Sustainability Index and RepuTex SRI index have dispelled the myth of underperformance of investment in a socially and environmentally responsible manner.

All investing is future-oriented ; ethical investing is even more so. Socially conscious investors are not only looking to secure their own financial future but are also looking for ways that their money can work to improve the collective future in terms of better quality of life. The three strategies that together define SRI allow investors to choose their level of involvement. Today, investors have more opportunities than ever before to make sound investment choices that offer competitive returns, create positive social impact and build up a sustainable society. Hence, it depends entirely on them as to what extent they can make the world a better place to live.

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Corporate Social Responsibility: Logic and Logistics

Swapan Chakraborty

Abstract

Capitalism is posing challenges to the workers and the common mass of the densely populated capital poor countries in a much bigger way than what Marx himself perceived during his days. The biggest menace it is creating in these poor countries is not only health hazards created by pollution of production but also the increased incidence of unemployment and the resultant poverty that follow in the wake of their production technology. This is a glowing specimen of external diseconomy. The diseconomy is created in two ways. First, the MNCs themselves are creating this. Secondly, the domestic corporate sector, in order to survive in the competition with the MNCs, are desperate to reduce costs and in the process tend to create diseconomy to the society by ignoring the related norms. Against this backdrop, the present paper ventures to analyse the ways in which the MNCs and the domestic corporate sector can best arrange to discharge their social obligations.

Key words : Surplus Value; Globalization; Negative Externalities in Production; Marginal Private Cost; Marginal Social Cost; Marginal Social Benefit; Pareto Optimal Output.

1. Introduction

The generic root of the concept of Corporate Social Responsibility (CSR) is essentially a derivative of the socialist thought that emerged in the 19th century as a dogma suggesting cures of the social injustices of industrialism in a capitalist economy. Socialism was originally concerned with the evils of inequality created under capitalism. The pre-Marx socialists including Robert Owen, Saint Simon, Charles Fourier and Louis Blanc advocated a system based on the romantic concepts of an ideal society. The Anarchists and the Syndicalists

opposed private property as it denied social justice to the common man. Later, Karl Marx, the chief protagonist of socialist thought, criticized capitalism for the exploitation of workers through appropriation of the 'surplus value'. After Marx, a long path has been traversed. The British imperialism has been forced to withdraw. The Cold War has ceased after collapse of the socialist bloc and there is increased US domination in gobal politics and economics. Capitalist development has continued to make strides with renewed vigour of exploitation. The major trend after the end of the Cold War is globalization that aims at a steady flow of information, technology, investment and output across the nations. Pure trade has decreased in volume, yielding place to Foreign Direct Investment (FDI) by the Multinational Corporations (MNCs) with gigantic monopoly capital and high technology. The MNCs, motivated by the population-fuelled vast markets of the Third World countries, are increasingly participating in production in the latter group of countries. The domestic producers of these countries are also taking all out efforts to thrive amidst the threats of competition with the foreign firms. Thus, the economies of these poor nations are in the full grip of mighty capitalists. Evidently, capitalism is posing challenges to the workers and the common mass of the densely populated capital poor countries in a much bigger way than what Marx himself perceived during his days. The biggest menace it is creating in these poor nations is not only health hazards created by pollution of production but also increased incidence of unemployment and the resultant poverty that follow in the wake of their production technology. This is a glowing specimen of external diseconomy in production. The diseconomy is created in two ways. First, the MNCs themselves are creating this. Secondly, the domestic corporate sector, in order to survive in the competition with the MNCs, are desperate to reduce costs and, in the process, tend to create diseconomy to the society by ignoring the related norms. Against this backdrop, the present paper ventures to justify the need for the Corporate Social Responsibility from the standpoint of an economic perspective. Specifically, it seeks to analyse the ways in which the MNCs and the domestic corporate sector can best arrange to discharge their social obligations in a typically developing economy.

2. Conflicts between economic responsibility and social responsibility

Business is an economic activity that aims at maximizing profit for the owner. In contrast, social responsibility is supposed to invoke a sense of serving the society without any expectation. As such, the goal of business is in direct conflict with social obligations. But business, as it is growing today, needs to be redefined in term of its parameters. Traditionally, an enterepreneur in a capitalist economy used to best exploit his opportunities for making his profit. The market size and the consumers' preferences were treated as parameters. Excepting for the usual tax obligations, the government would not impose any other restrictions. With reference to the Indian economy, of course, the industrial licensing was a constraint. But this is no longer true in the era of globalisation. Thus, any business enterprise is free to make profit according to its efficiency. It is this juncture that we would like to make our point with reference to the activities of the MNCs and the operations of the domestic firms in a developing economy.

3. Dominance of Multinational Corporations (MNCs)

The MNCs dominate the domestic firms of a host country primarily because of their superior production technology that is beyond exact emulation on the part of the domestic rival firms. Moreover, their massive scale of operations throughout the globe confers them an economy of scale which the domestic firms with a much limited scale of production cannot realize. This scale advantage results in a substantial cost advantage to the MNCs. The reason is simple. The one time fixed investment in the production technology is used in all of its plants. This substantially reduces the average fixed cost of production per plant. But the domsestic firms, even if an identical plant size is assumed, cannot reduce their corresponding cost per production centre, because the number of their plants is much less vis-à-vis the MNCs. Because of their substantial cost advantage, the MNCs can afford to sell their products at a competitive price and, at the same time, reap a substantial profit margin. This explains why the domestic firms find it difficult to survive in competition with the MNCs. A majority of the domestic firms leave the market or reduce

themselves to a status of ancillary units. Only a few with substantial resources can survive this competition. This also explains why a domestic firm usually prefers to operate under joint venture with an MNC.

4. External diseconomies of the MNCs

It is evident that an MNC tends to oust the domestic firms from competition to become a monopolist. Alternatively, a few MNCs in the industry form an oligopoly along with the surviving domestic firms. Moreover, the capital intensive technology of the MNCs does not have encouraging implications for employment generation. As a matter of fact, by eliminating the domestic rivals from the industry, they create a net decrease in employment. For a labour surplus economy, the shrinkage in employment creates poverty that does not auger well for distributive justice. On the contrary, by aggravating the problems of poverty and unemployment in the host country, the MNCs genuinely create external diseconomies in production. On the other side of the problem, the domestic firms, in their desperate need to reduce cost for the sake of survival in the industry, tend to violate the environmental norms and adopt short-cut methods of production, often creating substantial amount of pollution. This, in turn, creates health hazards and a whole host of related problems. On this score too, considerable external diseconomy in production is generated.

5. Can Pigovian tax be the leveller?

In each of the aforesaid two cases, there is negative externality in production. The market in each case is plausibly characterized by imperfection. Thus, application of the Pigovian tax transfer mechanism may be a standard approach. If a tax equal to the external marginal cost is added to the private marginal cost, the social marginal cost will increase at every output. As a result, given the marginal social benefit, the equilibrium price will increase and quantity will fall, thereby reducing the externality. Because of imperfection, the change in output will be in opposite direction to the Pareto optimal output. But the price rise may not be welcomed by either the MNC or the domestic firms for fear of loosing market. Moreover, the MNCs are, in many cases, being invited by the host country

government under BoP considerations. For these reasons, the Pigovian tax mechanism may not be accepted by the government as a sound proposition or a pragmatic approach. It is at this juncture that the concept of Corporate Social Responsibility may be made instrumental in tackling the negative externalities.

6. Justification of CSR using the Pigovian tax logic

The aforesaid analysis is a strong pointer to the need for gearing up the industrial enterprises in discharging their obligations to the society if the government abstains itself from using the Pigovian tax measure. In his shareholder model, Milton Friedman, a chief advocate of unfettered competitive capitalism, does not recognize the need for involving the corporate sector in discharging social responsibility. He sees its donation as drainage of others' money.

But it must be emphasized that since the industries are exempted from the compulsion of undergoing a price rise and a cut in output, as the Pigovian tax would have resulted in, they may be asked to bear a set of social obligations. In short, they must compensate for the negative externalities they create in production. Two possible schemes may be considered for the purpose. First, they may be persuaded morally to discharge a set of social obligations. This persuasion may entail some efforts for convincing them about their social duties in view of the external diseconomies created by them in their production processes. Secondly, and alternatively, they may be brought under a system of compulsory social service. The rationale of instilling this compulsion is not weak. The fact that they create diseconomies by itself justifies a tax. But since the Government does not impose a tax on this score to avoid the immediately following distortive effects, the compulsion of discharging social obligations is the second best approach for the government in asking the industries to compensate the society for the negative externalities. In this way, what could have been collected by the government as tax and later spent by it for the society can be directly used for the social benefits. Moreover, this approach has an added virtue in so far as it allows the industries to avoid the price rise and the quantity restrictions.

7. CSR and environmental externalities

A major area of the corporate social responsibility is the physical environment. The corporate sector may play an important role in two ways. First, it may proactively initiate a direct programme of improving the environment through a package of measures to ensure a pollution-free society. These measures may include conducting seminars and awareness programmes at frequent intervals, cooperating with the government in similar objectives in liaison with the university departments of environmental sciences and taking other direct actions of relevance for the improvement of environment like social afforestation and other standard means of conservation of ecology. Secondly, it is imperatively necessary on the part of the corporate sector to ensure prevention of environmental degradation. This may be achieved through strict observance of the environmental norms by way of adopting pollution-free technology to prevent emission of fumes and effluents. The question of industrial safety surfaces in a bigger way when one recalls the tragic incidence at the Union Carbide plant in Bhopal, claiming numerous lives and causing permanent invalidation of a large section of the residents. Fumes and effluents resulting from factory emissions precariously degrade the environment and, in particular, pollute the rivers supplying water to humans and the cattle alike. Our country has experienced justifiably sharp reactions from the judiciary on these deviations of the corporate sector.

8. MNCs and the eradication of poverty and unemployment

The MNCs, earning sizeable profits in the host countries, as they do, have an important role in compensating the community for the shrinkage in employment opportunities. As already pointed out, their technology with a capital-intensive character has palpably discouraging employment implications. As such, the MNCs and the corporate sector at large may be asked to initiate active programmes for imparting entrepreneurial training to the educated youth. These companies may also consider establishing a direct linkage of their demand for ancillary services with this section, especially in the vicinity of their production centres. Their marketing network spread throughout the country may be revamped towards this end in

a bigger way. The companies may also consider how best to tap enormous potential in the districts by way of formulating suitable productive schemes. For instance, it is possible to develop a vast tract of marshy land into a scheme of coconut and banana-cum- pisciculture, capable of generating a considerable measure of income and employment. In many cases, the endeavour of the banking sector in similar efforts may be greatly strengthened by the valuable supplementary efforts of the companies in this behalf. They can do this in a bigger way as part of their advertisement programmes, in the same manner in which they undertake beautification of shabby street corners to give way to small parks or gardens with lighting arrangements and fountains. By the same token, they may venture for slum development, low cost housing and development of market centres in select areas. These measures are bound to generate chain effects on indirect employment creation by unfolding new opportunities for the poor sections to open up shops and undertake transport business. All these are expected to go a long way in removing the problems of poverty, unemployment and social backwardness.

9. Education as a service to public sector

As a price of their negative externalities in production, the business sector may also be called upon to play a vital role in important areas so long served by the public sector. The MNCs as well as other domestic corporate houses of prominence may set up educational institutions like secondary and higher secondary schools and colleges in the districts suffering from a thin spread of education facilities. These companies may intimately associate themselves with the economic governance of these institutions and promote extra-curricular activities of the students. They may also share with the government in the arrangement of scholarships and stipends for the needy and meritorious. They may also explore providing incentives by offering employment to the deserving students of these institutions.

10. Health and disaster management

The MNCs can play a commendable role in the creation of low cost health centres and hospitals in the districts. Their

expertise in management can be made instrumental in providing a variety of effective health programmes in the community. This is likely to foster a healthy competition with newer private ventures in the field. In addition, in a country like India where floods are frequent threats to the rural people, the highly successful corporate houses can do wonders in the disaster management. This is expected to greatly strengthen the government efforts to cope with the problems.

11. Conclusion

Under the tempo of globalization, the increasing participation of the multitude of large business houses including the multinationals with their extensive industrial operations is likely to generate in the near future a greater amount of problems in the form of pollution and environmental degradation in the host countries most of which belong to the Third World. While, as a result of the increasing surge of Foreign Direct Investment, the latter is poised for a faster phase of industrialization, they are also like to experience renewed spells of external diseconomies in the form of fresh unemployment and poverty. In view of these negative externalities of production caused by the activities of the large scale industrial houses, it stands to reason to expect from the latter a definite amount of social consciousness in lieu of the additional tax that is theoretically due from them as a means of offsetting the aforesaid external diseconomies.

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Corporate Social Responsibility: Drivers and Obstacles

Dhrubaranjan Dandapat

Abstract

The increasing awareness among various stakeholders about how corporate behaviour affects social, political and natural environments has resulted in an increasing pressure on the companies to consider social and environmental criteria while making business decisions. Corporate Social Responsibility (CSR) focuses on the social, environmental and financial success - triple bottom line - of a company, with the aim of achieving sustainable development. This paper aims at identifying the factors that motivate a company to take up CSR programmes and also the obstacles or barriers that stand in the way of adopting such programmes.

Key words : CSR, Stakeholders, Triple Bottom Line, Internal Drivers, External Drivers.

1. Introduction

Traditionally, the merit or success of a business concern used to be evaluated primarily on the basis of its financial performance, i.e. how best the concern can fulfill its stockholders' interests. Friedman (1970) articulates a position that many business people and business students are sympathetic to, that a business's only responsibility is to maximize wealth for its stockholders. According to Friedman, a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of society, both those embodied in law and those embodied in ethical custom.

But, the increasing awareness among the other stakeholders-investors, consumers, employees, governments and other regulatory bodies, etc., about how corporate behaviour affects social, political and natural environments has resulted in an increasing pressure on the companies to consider social and environmental criteria while making business decisions.

Corporate Social Resposibility (CSR) integrates the interests of various stakeholders - all those affected by a company's conduct - into the company's business policies and actions. CSR focuses on the social, environmental and financial success - triple bottom line - of a company, with the aim of achieving sustainable development. Therefore, CSR may be considered as the voluntary integration of environmental and social considerations into business operations, over and above legal requirements and contractual obligations.

This paper aims at identifying the CSR determining factors i.e., the drivers, obstacles and critical success factors of CSR.

2. Concept of CSR

Debates about the ethical and social responsibilities of business organizations have been going on since the beginning of industrial capitalism in the late eighteenth century till the present day. The recent spate of corporate scandals over different parts of the world have demonstrated that unethical and immoral behaviour by business organisations can have significant negative consequences for shareholders, employees, customers and many small businesses that had been trading with these companies. As a result, significant changes can be observed in the concepts and practices of CSR.

At the beginning of the 20th century, the concept of business responsibility was frequently associated with philanthropy, often as a result of wealthy individuals retiring from the corporate arena and setting up foundations and trusts to help social causes (Windsor, 2001). In the second half of the century, business and literature gradually developed a philosophical approach to a business's responsibilities to society. Carroll (1991) conceived of CSR as a pyramid of economic, legal, ethical and charitable responsibilities where the base economic and legal responsibilities were required, ethical responsibilities were expected and charitable responsiveness was desired.

Business for Social Responsibility (2003, para. 1) defines CSR as 'achieving commercial success in ways that honour ethical values and respect people, communities and the natural environment'. In a similar fashion, the World Business Council for Sustainable Development defines it as 'the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life' (Holme and Watts, 2000).

Keeping in view the recent trend, it may be said that socially responsible companies not only try to be economically sustainable and profitable, but also desire to work with their employees, families, local communities and nation-states to improve the quality of life in ways that are both ethical and sustainable in relation to society and the environment. The ethical dimension of a company is a key aspect of social responsibility, and while the terms 'ethical' and 'socially responsible' have distinct meanings, the ethical dimension is common to both. Social responsibility may be described as a wider field that includes ethical behaviour as well as social and environmental dimensions.

3. CSR drivers

Different activities that a company performs have impacts on the business concern itself as well as on the society within which it operates. Due to globalization, many companies now operate across the globe. Hence, society in this context may be considered as incorporating the various stakeholders world over having the direct and/or indirect impact of the activities of such companies on its employees, consumers, investors, governments and other regulatory bodies, and people in general of different countries wherever such companies perform various business functions.

A simple 2 × 2 matrix (Diagram 1) may help demonstrate what drives a company to take up CSR programmes. The activities having favourable or beneficial impact on the business as well as on the society (Category A in the diagram) are most desirable ones. On the other hand, the activities from which neither the business nor the society gets any benefit (Category D in the diagram) have no justification for being carried on. Activities which may adversely affect the society but

beneficial for the company (Category B) may be due to its positive contribution with business justification but cannot be accepted from societal point of view. Similarly, activities which only contribute positively to the society but detrimental to the business (Category C) have no justification from the business point of view. Therefore, the companies are expected to take up the CSR programmes through which some benefits may accrue to them directly or indirectly, which is generally referred to as business case for CSR.

Diagram 1

Impact of Business Activities on Business and Society

SOCIETY

BUSINESS		Beneficial	Detrimental
	Beneficial	A	B
	Detrimental	C	D

Revelation of a few studies, mentioned below, that have been undertaken in relation to the impact of ethical and socially responsible behaviour on employees and leaders within organizations and the impact of ethical customers and ethical investors on organisational success, may help recognize the factors influencing the companies adopting CSR programmes.

Two main factors in an ethically sound climate are that the organisation is "doing the right thing" and that its leaders are good role models (Vershoor, 2000). Strong moral leadership has been suggested to have a major impact on the ethical behaviour of employees and managers (Hegarty and Sims, 1978; Pary and Proctor-Thompson, 2002; Vershoor, 2000).

Vershoor's (2000) study reveals that employee perceptions and key ethical outcomes are more positive when employees see ethical values like honesty, respect and trust being applied at work, and also that ethical behaviour by organizational leader, supervisors and co-workers increases favourable outcome.

Maignan (2001) has identified some industry surveys (e.g. Business Wire, 1997; Jones, 1997; Lorge, 1999) and research studies (e.g. Brown and Dacin, 1997; Handelman and Arnold, 1999), which indicate that corporate social responsibility may

induce consumer goodwill towards the organisation. Research on ethical consumers has highlighted their growing significance as a group in relation to influencing corporate behaviour (Matthews, 1994; Vaughan, 1993; Roddick, 2002). Such customers form part of a growing movement of people who are choosing not to buy products made in sweatshops or from child labour.

Investors nowadays are not only interested in getting timely and adequate return on their investments but also in corporate issues and are showing keen interest to know how the company is being managed. Research suggests that many investors shy away from companies implicated in serious wrong doing or injurious activities (Paine, 2003), and that such misconduct can undermine investor confidence and lead to substantial losses in market value (Karpoff and Lott, 1993). Other research has found that stock prices react favourably when companies with affirmative action awards and negatively, when they settle employment discrimination suits (Wright et al., 1998).

Numerous factors, some of which have been stated above, drive the business concerns into the direction of CSR. A set of drivers comes from *inside* the corporation while others are more *external* in origin. Accordingly, the CSR determining factors may be broadly categorized under (i) *Internal Drivers* and (ii) *External Drivers*.

Internal driver is embedded in the corporate culture, values and attitudes, referred to as *'value case for CSR'*. Another set of internal drivers, known as *'business case for CSR'*, is composed of numerous rational arguments for integrating CSR in the normal business processes and corporate behaviour having positive effect on the long-term performance of the organization and providing a scope for sustainable development. Some focus more on cost efficiency (i.e., operating risk management) while others mainly relate to quality improvement, innovation and growth (i.e., corporate reputation).

Though the significant drivers may vary from business to business, depending on factors such as the initial objective of the organization, its internal culture and strategy, the environment in which the business is operating, etc., some of them which are more or less common may be identified as follows.

- CSR as part of corporate culture and values, and / or as an ingredient of the founders' philosophy.
- CSR for better operating risk management
- CSR for better corporate reputation in order to derive competitive advantage in all types of markets
- CSR for higher effectiveness and innovation through better stakeholder relations.

External drivers are related to some types of pressure from external social forces. With the growing awareness of the impact of business on the environment and on society, society's expectations of business practice have also increased. These are reflected in a number of ways, as different segments of society directly or indirectly provide incentives or promote some approaches, or contrarily provide disincentives for others, with the aim of improving the environmental and social impact of businesses. Such drivers are of following types.

- Investors : They generally seek to invest in line with their own values, or in line with an expectation that companies with a CSR approach will be better opportunities.
- Consumers and others in the supply chain : They tend to choose one product, service or company over another on the basis of their understanding of its environmental or social credentials.
- Public authorities : They try to enforce their own role as purchasers, regulatory bodies through a range of mechanisms including promotion and information provision.
- NGOs : They monitor and assess the environmental and social impact of business and campaigning for improvements.
- Trade Unions : They seek to influence company behaviour through mechanisms such as collective agreements.
- Other companies, business networks, intermediaries and supply chains : They co-operate through sharing experience, develop a shared understanding of better approaches and expectations, provide external benchmarks and challenge practices in business to business relationships.

Survey results of Khan and Atkinson (2001) indicated that nearly 98 per cent of sample Indian executives and 94 per cent of sample British executives agreed that social responsibility

was relevant to business but there was less agreement on the relative importance of social goals to economic goals. Only 54 per cent of British managers and 75 per cent of Indian managers said that social goals were very essential as well as profit goals.

TABLE I

The extent to which groups were considered relevant to corporate social responsibility

Response Category	Shareholders No.	Percent	Consumers No.	Percent	Employees No.	Percent	Creditors No.	Percent	Government No.	Percent	Publicat large No.	Percent
India												
yes	22	53.7	34	82.9	38	92.7	24	58.5	33	80.5	21	51.2
no	3	7.3	-	-	-	-	3	7.3	1	2.4	7	17.1
no response	16	39.0	7	17.1	3	7.3	14	34.2	7	17.1	13	31.7
Total	41	100.0	41	100.0	41	100.0	41	100.0	41	100.0	41	100.0
Britain												
yes	35	72.9	43	89.6	48	100.0	26	54.2	18	37.5	30	62.5
no	9	18.7	2	4.2	0	0.0	14	29.1	18	37.5	11	22.9
no response	4	8.4	3	6.2	0	0.0	8	16.7	12	25.0	7	14.6
Total	48	100.0	48	100.0	48	100.0	48	100.0	48	100.0	48	100.0

Source: Khan & Atkinson, 2001

They also observed (Table 1) that there would appear to be general agreement among Indian and British executives about the relevance of the employees, consumers, shareholders and Government but less about the general public and creditors. The first four groups have a greater direct control over the economic health of a company than the others especially on a day to day basis. This may suggest more a concern for the economic consequences of not considering the interest of these groups than a focussing of social responsibility actions. It may be that these and other findings suggest a strong economic motive behind the involvement of companies in social responsibility actions.

In a similar finding, Webley (1975) reported that nearly 80 per cent of the Chief Executives agreed that neglecting the interest of employers, customers, suppliers, creditors, government and the community acts against the interests of shareholders.

4. Obstacles

Several factors may stand in the way of developing and implementing a true CSR strategy. Some of these barriers are caused by the complexities involved in the process. The more the involvement of the stakeholders, the more global the supply chain, the more complex societal expectations, the tougher the challenges the firms face. Some of the obstacles may be identified as follows.

- Unclear boundaries of societal responsibilities
- Complex set of issues and the challenge of working with different stakeholder groups
- Difficulty of clear communication and transparency
- Complex corporate structures
- Difficulties in implementing and developing in a competitive world
- Focus of investors on quantitative short-term financial performance indicators
- Lack of skills and resources.

In this connection, it is worth mentioning that different forums are working to address such complex issues. For example, European Corporate Sustainability Framework (ECSF) has been developed in order to address such complex issues as implementing social and societal responsive behaviour in the strive for sustainability - sustainability both in terms of striving for continuity of the organization and the continuity of the social, ecological and economical system which it is part of (Hardjono & Klein, 2004).

5. Potential benefits

The companies themselves and society in general are expected to derive benefits, some of which are mentioned below, out of successful implementation of the CSR programmes.

Company benefits

- Improved financial performance
- Lower operating costs
- Improved relationships between shareholders, employees, the company's creditors, suppliers, customers and the public
- Enhanced brand image and reputation

- Increased sales and customer loyalty
- Greater job satisfaction among employees
- Improved working environment
- More ability to attract and retain employees
- Greater productivity and quality
- Avoidance of prohibitive legal sanctions
- Better access to capital
- Product safety and decreased liability
- A better industrial society.

Benefits to the community and the general public

- Charitable contributions
- Employee volunteer programmes
- Corporate involvement in community education, employment and homelessness programmes
- Product safely and quality.

Environmental benefits

- Better product durability and functionality
- Greater use of renewable resources
- Integration of environmental management tools into business plans, e.g., life-cycle assessment and costing, environmental management standards, etc.

6. Critical Success Factors

The success in introducing and implementing CSR strategies usually depends on the competencies of the firms and their positive approach towards CSR (like commitment from the top, involvement of all employees, etc.) and a favourable framework and environment that help stimulating true CSR attitudes and practices (like mutual trust, commitment of all stakeholders, flexibility, etc.). Some of the factors that may be considered for making the CSR programmes successful are listed below.

- Commitment of and support from the top management and involvement of employees at all levels of the organization
- Integration of CSR in corporate strategy and its translation into the daily operations
- Collection of adequate relevant data and communication about company's CSR performance

- Sufficiently flexible CSR instruments and processes
- Mutual trust among all the stakeholders
- Opportunities to learn from, and with peers
- Promotion of socially responsible investment (SRI).

7. Conclusion

With the increased awareness of the different stakeholders and people in general about the impact of business on society and environment, CSR is now being considered as the core business activities and forming an essential part of the corporate strategy. While business organisations are there to make profits, an approach that integrates environmental and social considerations and is based on dialogue with stakeholders is likely to contribute to the long-term sustainability of business in society. CSR is one such means that may help achieve economic, social and environmental progress. However, instead of considering CSR as substitute for any measure, it should be considered as complementary to other approaches of ensuring high environmental and social performance. Though the concept of CSR is now firmly rooted on the global business agenda, but in order to move from theory to concrete action, many obstacles are yet to be overcome. Considering limit to CSR, it alone cannot be expected to ensure environmental and social improvement and that it should not be used to shift public responsibilities to the companies. We may conclude with the following words of Dalai Lama (1999) :

Each of us must learn to work not just for his or her own self, family or nation but for the benefit of all humankind. Universal responsibility is the real key to human survival.

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Corporate Social Responsibilities in BRICS Countries

Malayendu Saha

Abstract

The past twenty years have seen a radical change in the relationship between business and society. Key drivers of this change have been the globalisation of trade, the increased size and influence of companies, the repositioning of government and the rise in strategic importance of stakeholder relationships, knowledge and brand reputation. The relationship between companies and civil society organisations has transformed from philanthropy to a re-examination of the roles, rights and responsibilities of business in society. The growing economic and political significance of countries such as Brazil, Russia, India, China and South Africa (BRICS countries) provide a general context for the future of CSR. The longer-term impacts of participation by the emerging countries in the global economy and its implications for standards of social responsibility are already widely recognized as more significant issue.

Key words : Globalisation; stakeholders; emerging countries; sustainability; triple bottomline benefits.

1. Introduction

UN Secretary General Kofi Annan in 2000, launched the Global Compact, the first corporate social responsibility (CSR) initiative at international level to gratify the increasing demands for a more inclusive and sustainable global economy. At present, the UNGC is structured as a multi-stakeholder network and is regarded as the most prominent CSR instrument based on legislative and voluntary approaches. The recent trend of globalisation has undergone fundamental changes in the business environment and has brought a comprehension among the corporate entities to have clearly defined business practises with a sound focus on the public interest in the

markets (Gray, 2001). The corporate entities have also perceived the triangular relationship between companies, the state and the society. No longer can firms continue to act as independent entities regardless of the interest of the general public. The evolution of the relationship between companies and society has been one of slow transformation from a philanthropic coexistence to one where the mutual interest of all the stakeholders is gaining paramount importance. Companies are becoming cognisant about the fact that in order to gain strategic initiative and to ensure continued existence, business practises may have to be moulded from the normal practise of solely focussing on profits to factor in public goodwill and responsible business etiquettes (Raynard and Forstater, 2002). Astute business leaders have been quick to embrace this new ethos spotting its potential for triple bottom line benefits: profit for the economic bottom line, quality of life concerning the social bottom line and the environmental bottom line. Increasingly, the governments have agreed on the need for a clear, progressive public policy framework. That means that the countries should play a stronger and more active role in promoting CSR, intervening in the marketplace when a clear societal case can be made. The growing economic and political significance of countries such as Brazil, Russia, India, China and South Africa (the so-called BRICS countries) provide a general context for the future of CSR. The longer-term impacts of participation by the emerging countries in the global economy and its implications for standards of social responsibility are already widely recognized as more significant issue.

2. Rise of corporate social responsibility

There have seen a radical change during the last twenty years in the private sector's relationship both with the state and civil society. Furthermore, globalization, deregulation and privatization have transformed the basis on which private enterprise is expected to contribute to the public good. The relationship between companies and civil society has also motivated from philanthropy to a re-examination of the roles, rights and responsibilities of business in society. High profile companies are implementing CSR processes such as public commitment to standards, community investment, continuous improvement, stakeholder engagement and corporate reporting

on social and environmental performance. CSR is now being discussed and debated in the public policy sphere – the EU has recently published a Green Paper on the subject, 2005 has been designated the European year of CSR, and the UNGC is bringing together companies and UN agencies to address Corporate Social Responsibility. The basic drivers of CSR consisted of:

Values: There has been shift in values within businesses where they not only feel responsibility for wealth creation but also for social and environmental goods.

Strategy: There has been a significant change in strategy development by the corporate entities to become more socially and environmentally responsible.

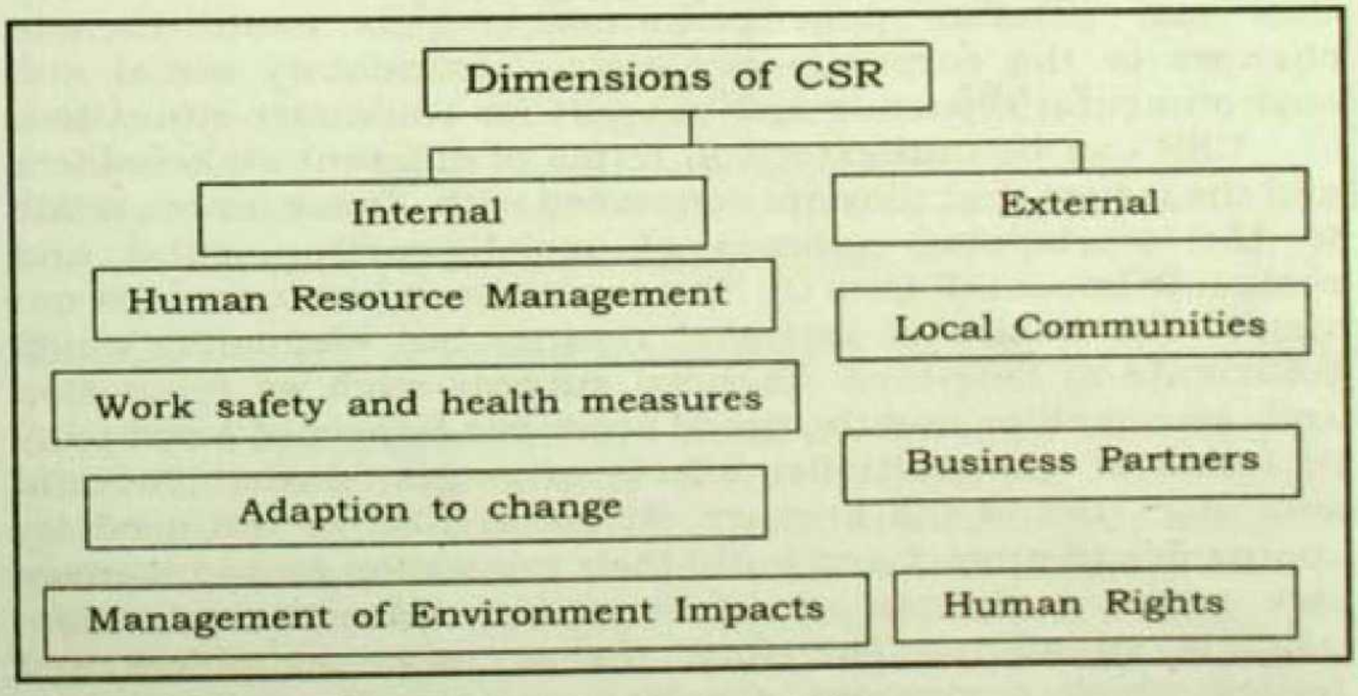
Public pressure: The pressure groups, consumers, media, the state and other public bodies have enforced the companies to become more socially responsible. Companies are often driven by one of the above but see a shift into other spheres over time. For example, for companies subject to high profile campaigns, such as Shell and Nike, the main driver for change has been public pressure. The public pressure centred on three key areas: the environment, labour standards, and human rights, and it is no coincidence that these make up the nine principles of the UNGC.

3. The dimensions and generations of CSR

CSR is one such niche area of corporate behaviour and governance that needs to get aggressively addressed and implemented tactfully in the organizations to synergies efforts towards sustainable growth and development of societal objectives at large. It refers to the "continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large (World Business Council for Sustainable Development)." According to Business for Social Responsibility (BSR), "CSR is defined as achieving commercial success in ways that honour ethical values and respect people, communities, and the natural environment". Alternatively, CSR is an action by a firm, which the firm chooses to take, that substantially affects an identifiable social stakeholder's welfare (Frooman,1997). The stakeholder concept is reiterated in another definition, which

states: "CSR is concerned with treating the stakeholders of the firm ethically or in a socially responsible manner. Stakeholders exist both within a firm and outside. The aim of social responsibility is to create higher and higher standards of living, while preserving the profitability of the corporation, for its stakeholders both within and outside the corporation (Hopkins, 2004)." Thus CSR exhorts firms to diverge from their sole aim of maximising profits and to lay more importance on improving the economic and social standards of the community in their countries of operation. As Warhust (2001) points out, the three major elements of CSR are product use which focuses on contribution of industrial products lending to well being and quality of life of the society, business practice which focuses on good corporate governance and gives high impetus for the environmental well being and equity which tries for distribution of profits equitably across different societies especially the host community.

Figure 1



Source: Raynard, P., & M. Forstater (2002).

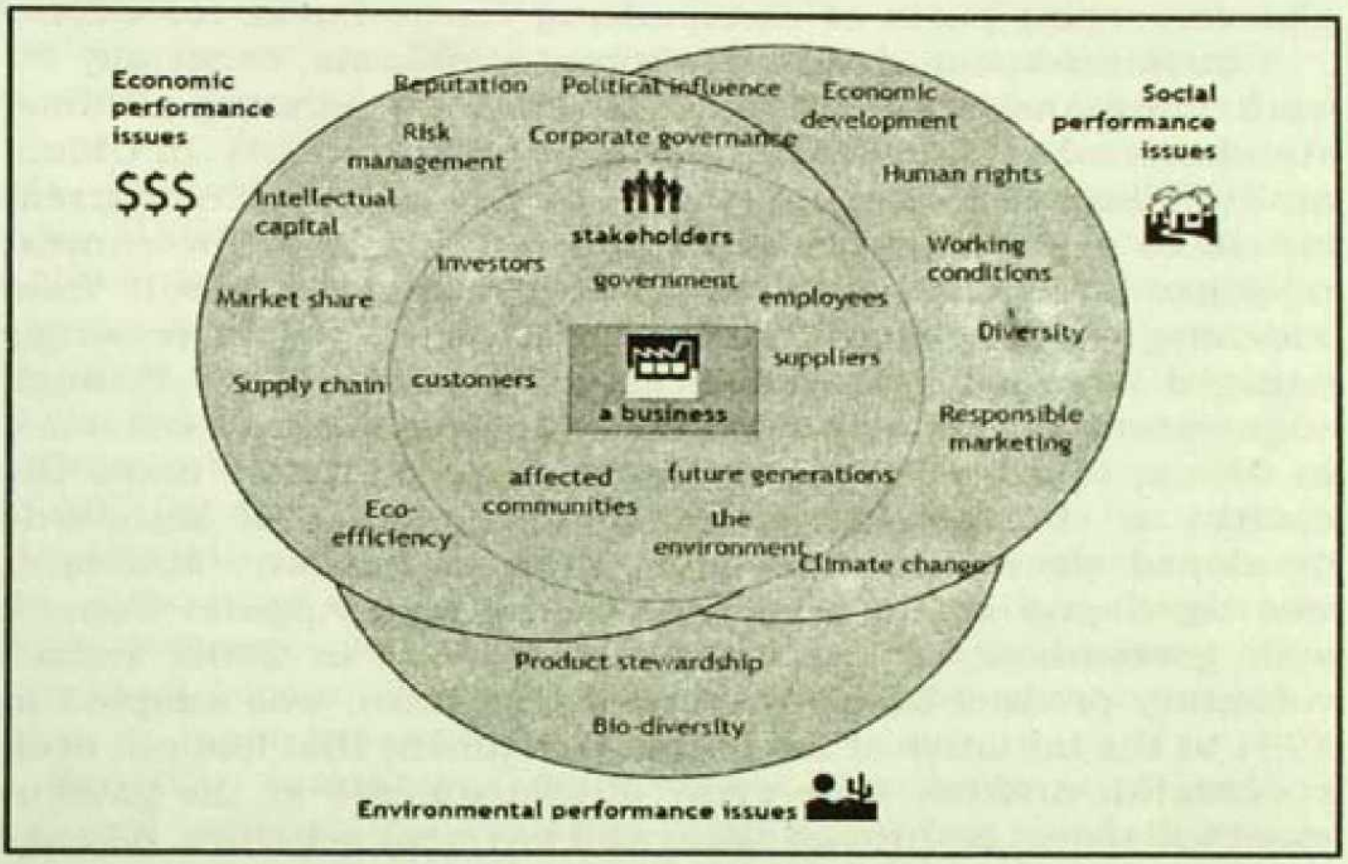
The Green Paper (2001) by the Commission of the European Communities identifies two main dimensions of CSR, an internal dimension and an external dimension (Figure 1). The former relates to practices internal to the company and involves human resource management work safety and health measures, adaptation to change and management of environ-

mental impacts. The external factors are practices concerning satisfying the external stakeholders comprising local communities, business partners and human rights. Simon Zadek describes the development of CSR in terms of three generations with more focus on accountability. During the first generation of CSR, companies were responsible to contribute to commercial success. This is the most traditional and widespread form of CSR, most often manifested as corporate philanthropy. In Second Generation, companies, and whole industries, see CSR as an integral part of long-term business strategy. Elkington has termed them as 'Corporate Citizen'. A Third Generation of CSR is needed in order to make a significant contribution to addressing poverty, environmental degradation and others. This will go beyond voluntary approaches by individual companies and will involve leadership companies and organisations influencing the market in which they operate and how it is regulated to remould whole markets toward sustainability. This will need to involve both partnerships with civil society and changes in public policy, which both reward CSR and penalize poor performance. This could include changes to the corporate tax regime, mandatory social and environmental reporting and support for consumer education.

CSR can be understood in terms of different stakeholders and the issues that they are concerned with. These issues relate to the overlapping spheres of social, environmental and economic impact (Figure 2). The economic sphere concerns not simply the basics of financial returns but elements, which contribute to long-term financial success such as reputation and relationships and the broad economic impact of a company in terms of the multiplier effects of wages, investment and sourcing. One of the primary drivers of CSR is the need for companies to protect and build their reputation and to manage risk across a diverse set of countries, cultures and socio-political situations. Therefore, the set of stakeholders and issues which companies consider strategically important is expanding from those most closely associated with the business and protected by legal accountability to those further removed (such as employees of sub-contractors) and even future generations. CSR, thus, means balancing the interests of a wider group of stakeholders and strategically managing the interconnected social, environmental and economic impacts of business activities. This does not necessarily mean that all

stakeholders of a company have an equal say in its strategic direction but it does mean that they affect, and are affected by, that direction and therefore must be considered.

Figure 2



Source: Raynard, P., & M. Forstater (2002).

4. Multiplicity of policy instruments by the Governments

The CSR Practices (World Bank Group) have identified five distinctive roles for public sector: regulation; facilitation; partnership; endorsement; and demonstration. The range of policy instruments used by governments to promote CSR is wide and reflects varying policy approaches as well as economic circumstances. The factors that may determine the course of action taken by any individual government include capacity constraints; the size of domestic markets for products potentially affected by CSR concerns; the degree of export orientation of the economy in sectors affected by international CSR drivers (e.g. agriculture, textiles, pharmaceuticals); the presence of enterprises willing to amend; and the degree to which different stakeholders are comfortable working in partnership for commonly defined outcomes. In the broadest sense, the social

and environmental legislation in any country can be seen as an expression of public sector engagement with CSR. Other areas of legislation including competition policy, basic investment and enterprise frameworks, and rights of access to information and public participation in decision-making are also important parts of the enabling environment for CSR.

In this respect, devising minimal standards, especially for work force and environment, and enforcing existing minimal standards, are two of the main duties of governments. In China, multinational corporations have lobbied heavily against current moves to tighten labour legislation, which is a government response to concerns that social unrest could result from widening income disparities. Governments are also increasingly engaged in shaping the self-regulatory tools of CSR through engagement in industry-led labelling or certification schemes. In China, officials have actively endorsed efforts to make the country a standard-setter, not simply a taker of standards developed elsewhere. CSC9000T, a textile industry standard, was developed within the China Textile and Apparel Council with government endorsement and adopted in 2005. India's voluntary product labelling scheme, Ecomark, was adopted in 1991 at the initiative of the Indian Parliament that has not been successful. Another wide array of instruments at the government's disposal is through taxes and payment schemes. A range of tax mechanisms has found its way into national approaches to promote socially desirable business practices. Foreign investment contract negotiations offer opportunities for governments to set clear expectations for investor contributions to skills and enterprise development, and technology transfer.

5. Developments in the BRICS countries

Some literatures on CSR suggest that MNCs choose to practice CSR in their supply chains for a number of compelling reasons other than philanthropy. Business for Social Responsibility (1998) points out that public demands for enforcement of regulations and for increased disclosure by investors, regulators and public interest groups have played a strong role in increasing corporations' sensitivity to their social responsibilities. It is also noted that public and shareholder expectations of corporations to deal with complex social and economic issues in the communities where they operate have also risen

dramatically over the past decade. Many corporations have learned that consumers and business customers often seek to align themselves with firms that have a reputation for social responsibility. Some have indicated that MNCs, in order to stay competitive in global markets, have developed strong supply chains through which they can transfer standards to their suppliers as well as on their own divisions and subsidiaries. Moreover, many corporations now realize that the benefits of CSR also include greater access to capital, reduced operating costs, improved financial performance and enhanced brand image. MNCs, none of whom have apprently implemented CSR as philanthropy, also perceive longer-term returns from CSR by promoting sustainable development, stronger competitive advantage, preservation of crucial resources and raw materials, a favourable corporate image and opportunities for new product development. The BRICS countries, as the principal contributors of GDP growth in the emerging economies, are the main recipients of supply chain-related investments in such economies. Resources in the BRICS countries - whether they are natural resources, human capital or competence and know-how - are thus becoming an integral part of many global supply chains in most industries.

Brazil's economy, characterized by large and well-developed agricultural, mining, manufacturing, and service sectors, outweighs that of all other Latin American countries and is expanding its market share in the world. In 2005, the country conducted supply chain work to the Tea Industry in Brazil and focused on Labour and Health & Safety compliance of producers that exported tea to ETP - Ethical Tea Partnership in England. One important observation was that, Brazilian producers were much more acceptable than other countries. The Forestry Partners Program is another example of how much MNCs can contribute to SME and CSR development by incorporating local stakeholders into the supply chain. The programme reduces maintenance and transportation costs and mitigates potential supply shocks through the diversification of wood supply. By providing business development capital and resources that the farmers would otherwise not be able to access, the corporate entities enable farmers to raise crops and operate small forestry operations at the same time. This creates an additional, stable revenue stream for farmers through land diversification. In addition, the sustainable forestry and land

management techniques imparted to the farmers contribute to the long-term sustainability of the Brazilian forest and increase local awareness of modern forestry management techniques within local and indigenous communities. The programme also provides political benefits through its contribution to the Brazilian government's goals of increased tax collection and unemployment reduction.

The **Russian economy**, displaying positive new trends, was very successful in 2005. Currently Russia is actively attempting to position itself as an energy superpower and guarantor of global energy security, and this tactic but will impact not only on domestic economic development but will also have far-reaching global political and economic implications. There is growth in foreign direct investment from Luxembourg, the Netherlands, Great Britain, Cyprus, Germany, the US and France in the Russian economy. The country's long-term development path, particularly in the fossil fuel and energy sectors, and the means by which it pursues sustained economic growth, is sure to impact significantly on global environmental concerns, particularly in the areas of climate change and greenhouse gas (GHG) emissions. Russian companies are actively pursuing the objective of becoming global players that exert considerable influence in the international economic and political arenas. By becoming global players, they are being exposed to and acquainted with international best practices, including the sphere of environment protection, CSR and sustainable development. In terms of CSR, Russia differs significantly from its peers in the BRIC group of emerging markets. The concept of CSR has undergone a significant evolution in the country. Under the previous political dispensation, many companies, particularly those operating in remote areas, were often the single largest employer in a particular region, and as a result were compelled to take on significant social functions. In line with his key objective for his second term in office, namely that of combating poverty, President Vladimir Putin has repeatedly urged companies to become 'better corporate citizens', with the aim of shifting some social functions from the state to the private sector.

To manage risks in supply chain area, the corporations developed their own Corporate Code that all suppliers must adhere to. The Code covered a wide range of aspects around environment, health and safety, workplace conditions, and

wood procurement. Suppliers, who are required to implement the standard, are generally happy with the improvements to their businesses, despite the expense and effort involved. In many cases, the requirements of the standard exceed those required by local legislation, but this leads to a better managed business, with less risk of environmental or health and safety accidents, cleaner workplaces, more satisfied employees, and a more attractive place to work, bringing in more qualified and better motivated staff.

India, in recent years, with a strong economic growth prospect, a well diversified financial sector, rich raw material base, a vast reservoir of technical as well as unskilled labour, a huge domestic market that is expanding rapidly and an incentive system that rewards innovation and enterprise, is regarded as one of the most favoured destinations to the foreign institutions. A liberal policy regime for FDI with gradual opening up of additional sectors has made India competitive with other countries. Exports have emerged as an integral part of developmental policy. In chemicals, metals, drugs and pharmaceuticals, leather and leather products, textiles, automobiles and auto ancillaries, and industrial machinery and components, India has an edge in terms of resources, design skills and technology adaptation.

The post-liberalization phase has seen a fundamental shift from this philanthropy-based model of corporate social responsibility to a stakeholder-participation based model. Over the years, the nature of the involvement of the corporate sector with the community has undergone a sea change. It has moved away from charity and dependence to empowerment and partnership and there is consistent transformation in the corporate social responsibility practices in the last decade. In the stakeholder model, the community in which the corporation exists is seen as a stakeholder in the company and, therefore, the company has certain obligations and duties towards it like it has towards its other stakeholders (customers, employees and shareholders). It is a recognition of the fact that companies perform in many non-traditional areas such as human rights, business ethics, environmental policies, social contributions, community development, corporate governance, and safety and security. A company is now accountable for its 'triple bottom line' that includes social, environmental, and financial performance rather than the traditional financial performance alone.

The Indian public sector is a fore-runner in discharging its social responsibility. Undertakings like the Oil and Natural Gas Commission (ONGC), Steel Authority of India Ltd (SAIL) and Gas Authority of India Ltd. (GAIL) have played critical role in the development of several backward regions of the country. Indian Airlines (now Indian) and Bharat Heavy Electrical Ltd. (BHEL) have been widely acclaimed for their disaster management efforts. The CSR initiatives have also seen greater people participation at all stages and tighter accountability standards. The issue of norms for corporate social responsibility seems to have been adequately dealt with by industry practices like benchmarking, CSR ratings and certification by different agencies.

China is promising to continue to transform the global supply chain landscape in goods and capital, if not services. China's astonishing growth as a producer of goods for the world over the last 25 years is well known, moving it into position as the number one consumer of a lengthening list of commodities, and number one supplier in manufactured goods. The accelerated revenue growth achieved from outsourced manufacturing, however, has distracted even the most capable of Chinese enterprises from investing in their own global brands, channels to market, and product development capability. China has also under-performed in reaching targets for the export of goods into complex global supply chains, like Original Equipment Manufacturer (OEM) automotive components. Reasons for this are structural, and include lack of experience, undeveloped IT utilization at the enterprise level, and communication challenges. In China, CSR reporting has been almost non-existent. This is expected to change significantly as Chinese companies come under pressure both externally, due to its greater exposure to international markets, and internally, from increasing public expectations arising from the liberalisation of the economy and state institutions.

South Africa's corporate governance code – known as King II – calls for the inclusion of annual reporting on sustainability. While it specifies in some detail the types of issues to be covered, it does not specify particular sustainability outcomes. The global business consultancy, KPMG, has conducted eight studies to date on the extent of CSR reporting in South Africa. Their most recent study, published in December 2004; looks at the extent of sustainability reporting

in all 154 independent companies listed on the Johannesburg Stock Exchange (JSE). In particular, it focuses on compliance with the King II corporate governance code. It suggests that South African companies are global leaders on CSR reporting regarding social issues, but tend to be less advanced in relation to environmental matters. For example, two-thirds of companies report on how they are dealing with AIDS among their employees. Almost 70 per cent of companies reported a whistle blowing 'hotline' for corruption-related issues.

6. Summary and conclusion

CSR has gained prominence against a backdrop of relative economic stability and growth. Governments have derived greater developmental benefits from CSR where there is a national strategy framework that explicitly recognizes its potential contribution and seeks to align CSR with development goals. Foreign investors bring with them expertise on CSR that could be tapped more effectively to strengthen domestic capabilities — contractual arrangements and public-private partnerships are two ways of doing so. Among the emerging countries, whilst South Africa appears notably ahead, some countries (e.g. China) have revealed little initiative to produce evidence of companies embracing CSR and addressing sustainability issues in a substantial way. Some countries show positive signs in some spheres but lag behind in others. For instance, although Taiwanese companies received poor governance scores, yet a number of them showed evidence of 'good' environmental practices. This latter point suggests that some companies might be attractive for some investment approaches, but not for others. In extending the country perspective, a 'best in class' comparison exercise between developed and emerging market companies reveals a general suggestion that the former tend to score higher i.e. their level of CSR activity and its disclosure is greater than that in the emerging markets. On the other hand, those emerging market companies that do devote resources to CSR activities may well gain potential financial benefits as leaders among their peers. Overall, the study confirms that the emerging markets can extract diversity in company performance, provide potential choices among companies and can extend their horizons. Not only might this be financially rewarding but it can help bring sustainability

improvements along the way. Ultimately, the long-term success of CSR will be based on its ability to be positioned within the core of business strategy and development, thereby becoming part of 'business as usual'.

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Climate Change: Evidence from the Sustainability Reports of the Top 50 Global Energy Companies*

Qi Chen
Mike Jones

Abstract

Climate change is an important and growing problem. Companies are increasingly under pressure to report their impact on climate change and give information, particularly about carbon and carbon emissions. This article looks at the sustainabilty reporting by 50 leading global energy companies. In all, 38 companies were found to produce discrete sustainability reports. Typically, large companies produced more information than small companies and developed companies produced more information than developing companies. European and North American countries led the way. There was a great variety in the amount of information that was produced. However, disappointingly most of the information was general and non-specific rather than detailed. There were, however, a handful of companies that produced very extensive sustainable reports and considerable information on their carbon emissions. In general, there was an awareness of current environmental issues, but low overall accountability.

Key words : Climate Change; Greenhouse Gas; Carbon Emissions; Kyoto Protocol; Environmental Sustainability.

1. Introduction

One of the most important social and political issues is the responsible use of natural resources. This is becoming ever more challenging due to climate change (Fortes, 2001). Scientists generally agree that the principal driver of recent

* Based on Qi Chen's M.Sc. Dissertation.

climate change is human activity which has caused an increasing amount of Greenhouse Gas (GHG) emission (mainly carbon dioxide emissions) primarily from the burning of fossil fuels (Collins et al, 2007; Climate Change, 2007). This became particularly noticeable in the late 20th century, because of the emission contribution from rapidly industrializing developing countries, such as China and India.

The United Nations' Framework Convention on Climate Change (commonly known as the Kyoto Protocol), has resulted in the implementation of an international and legally binding agreement for the developed countries to commit themselves to reduce greenhouse gas emissions by 5% at least by 2012. At the same time, the Kyoto Protocol has placed a monetary value on carbon emissions via the establishment of an Emission Trading Scheme (ETS).

GHG emissions produced from leading global companies have played an influential role in the global climate change. Indeed, several top companies produce higher annual emissions than some individual countries. For instance, while the Falkland Islands produced 0.6 million metric tons of carbon dioxide in 2003, BP produced 78.5 million metric tons (BP, 2006).

Businesses are increasingly under pressure to reduce their greenhouse gas emissions and to report such information. Such information is requested by both individual investors and institutional investors as well as other stakeholders, such as the government, the local community and pressure groups.

Accountants play a key part in providing the metrics for measuring a company's contribution to environmental sustainability. Charles Tilley, the chief executive of the Chartered Institute of Management Accountants, in a speech at the 17th World Congress of Accountants (2006) in Turkey, commented that there "was a compelling case for companies to accept social and environmental responsibility and to provide transparent sustainable reporting" (Tilley, 2007).

This research ascertains the responses of global corporate companies (especially those in energy-intensive industries such as Exxon, BP, China Petroleum and Chemical Corporation and the Oil and Natural Gas Corporation) to this widespread concern with climate change and GHG emission. In particular, it investigates the environmental reporting practices of global energy companies, specifically their policies on climate change, GHG and carbon emissions.

2. Literature Review

(i) Climate change and its impact on business

Climate change refers to the changes happening to the world's climate (such as the variations in precipitation, wind, cloud and temperature). It is also commonly used with terms such as "global warming" or " greenhouse effect". This occurs naturally, but has been more recently caused by human activities (Climate change, 2007; Grubb and Rose, 1992). Grubb and Rose (1992, p.1) state that climate change poses a unique problem for the global community of nations.

According to Nicholas Stern (Stern, 2006), climate change will have serious impacts within the lifetime of most of those currently alive and strongly affect future generations. Leading energy company are responsible for substantial GHG emissions [e.g., E.ON is responsible for about 0.6 percent of the world man-made CO2 emissions (E.On ,2006). The International Panel on Climate Change (IPCC) estimates that global temperatures will increase by 1.1 to 6.4 degrees by the end of this century (UNCTAD, 1992). The United Nations Confederation on Trade and Development (UNCTAD) warns that "...rapid change could disrupt both human societies and natural ecosystems..." (1992, p.1).

GHG emissions, mainly carbon dioxide, change the heat balance in the lower atmosphere and hence severely impact the earth. According to IPCC's 4th Assessment Report on climate change in 2007, there is a 90% probability that man-made GHG emission, of which one fifth are generated by electricity and heat, is responsible for climate change. Thereby, CO2 emission plays a substantial role and is the main driver of the climate change in the present as well as in the future (BP, 2006).

In order to mitigate climate change, carbon dioxide emissions need to be limited and reduced, otherwise, "...the consequences could be extremely serious, and by the time the evidence is clear, it will be far too late to prevent much further change..." (Grubb and Rose, 1992, p. 1). An efficient global system is, therefore, needed to reduce and control the emissions from both developing countries and developed countries.

The international agreement of Kyoto Protocol was agreed in 1997 and aimed to reduce the GHG emissions of developed

countries by 5.0% from the 1990 level by 2012. So far, the US has not ratified it (Lund, 2007; Kyoto Protocol, 2007).

A carbon market has now developed and is growing rapidly. In the first half of 2007, the world's carbon market was up 45%. Since people have realised the irreversible consequences of climate change and increasing GHG emission, public interest has focused on environmental issues, especially the disclosure of GHG emissions and CO2, and the impact of companies on the environment (Weetman, 1999).

However, the disclosure of climate risk is poor, according to results generated from the survey on Standard and Poor's 500 companies sustainability reports (CDP, 2007; Fortes, 2001).

(ii) Environmental reporting

Corporate social responsibility is of growing public interest in recent years (Alexandra al, 2003). Gray et al (1987, p. 3) defined CSR as:

"... the process of communicating the social and environmental effects of organisations' economic actions to particular interest groups within society and to society at large..."

CSR remains controversial. For instance, Goodpaster (1982) argues companies need to be responsible for its social behaviour rather than solely making profits, but some academics argue that companies have no obligation to pay attention to social and environmental issues as the main objective of a business is to increase the wealth of the owners (e.g., Watson and Head, 2001). Environmental accounting (i.e., the measurement and reporting of the impact that corporate operating activities have on the environment (Gray et al., 1987)) can be seen as a subset of CSR.

Environmental reporting is closely connected with sustainable development. The World Commission of Environment and Development (WCED), Brundtland Commission, clearly defined sustainability as a system of development which can meet the needs of the present without compromising the needs of the future (WCED, 1987). Sustainable development is important because "pollution and sustainable development are key issues in environmental accounting" (Fortes, 2001, p.81).

Nowadays, companies are more sensitive to the environmental issues given the enormous pressures from different stakeholders (e.g., the government, the environmental groups and individual consumers). This has led to increasing levels of

environmental disclosure across the large global companies (Roberts, 1992; Gray et al., 1996; Jupe, 1997). However, this is often country contingent. For example, Norway is the only country in Europe with mandatory disclosure with the level of emission needing to be disclosed in the Director's Report (Roberts, 1992; Gray et al., 1996). Companies typically include voluntary environmental information in their annual reports or produce standalone reports (e.g., environmental/sustainability reports) (Jones, 2002, p. 280). Since the 1990s, there has been a particular increase in standalone environmental reports and sustainable accounting more generally (Jones, 1996, 2003).

3. Methodology

This research was conducted from May to September 2007 and was based on a checklist survey conducted on the CSR reports of the leading 50 companies from the Platts Top 250 Global Energy Company Ranking 2006 (Platts). The Platts Top Energy Company Ranking was used as a starting point for this research as it is a popular and reputable provider of energy and metals information. Its expertise is in the oil, natural gas, electricity, nuclear power, coal, petrochemical and metals market. Meanwhile, its real-time news, pricing, and analytical services, provide transparent and efficient information. The Platts Top 250 Global Energy Companies 2006 now in its sixth year is a well-known and prevailing global survey which measures financial performance by examining global energy companies' profits, assets, revenues and return on invested capital (Platts, 2007 and PRNewswire, 2007).

Based on the prior literature a checklist was constructed. A pilot study was undertaken with 10 out of 50 of the selected companies. After the pilot study some minor amendments were made. The data analysis focused on the 38 companies with sustainability reports. These reports had a variety of names, mostly *Sustainability Report or Corporate Social Responsibility Report.* Marathon Oil corporation's report was entitled *Living Our Value Report.*

A. Explanatory variables

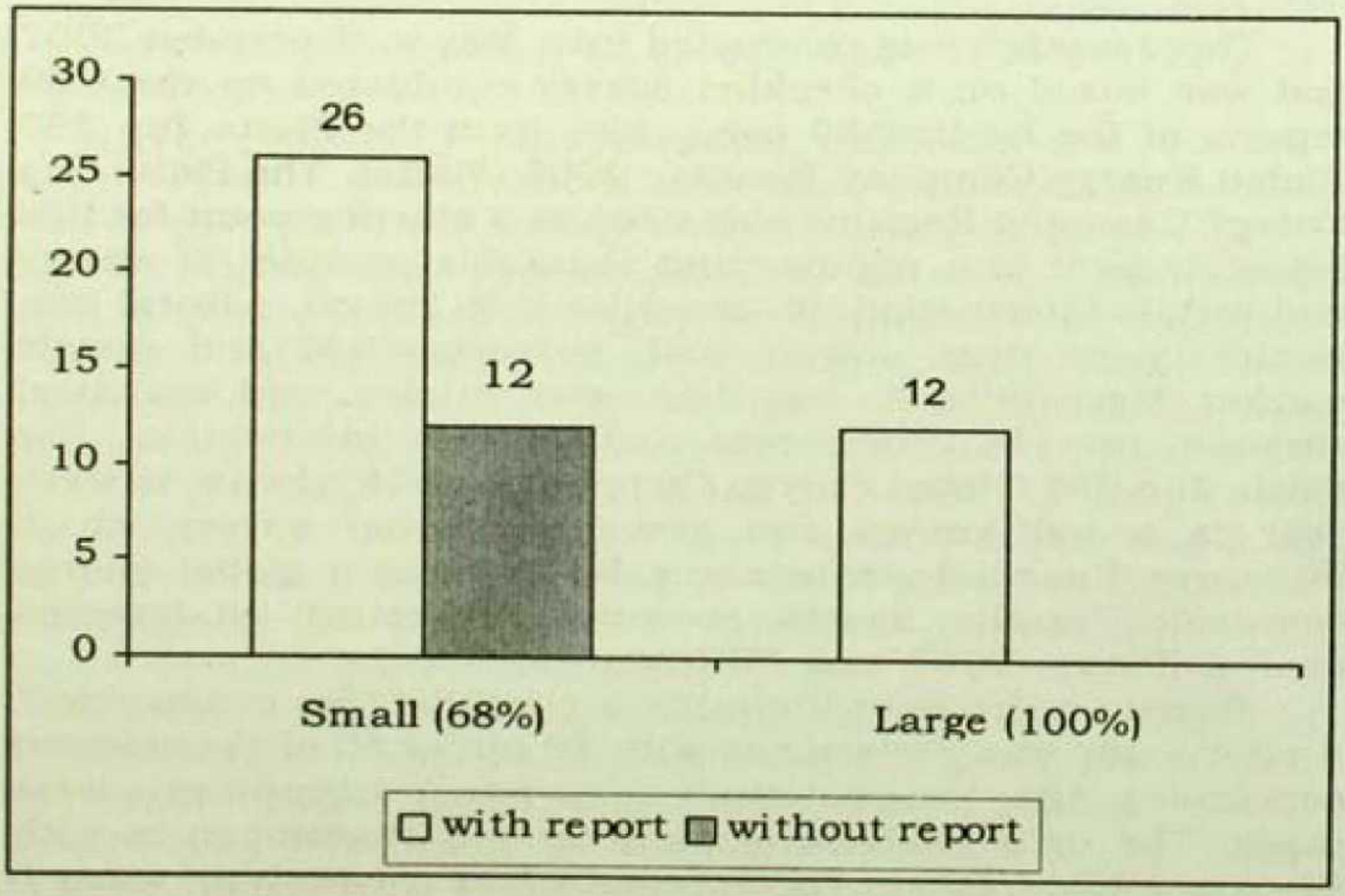
The findings are first analysed and compared using 4 perspectives: size, industry, country/region and whether they

were developed countries (Annex 1 from the Kyoto Protocol agreement).

(i) Size

The 50 companies are divided into small (group assets less than $100,000) and large companies (group assets greater than $100,000) (see Figure 1). All the large companies had reports. When tested using X^2, size was a significant explanator of whether or not the company produced a report ($X^2 = 5.31$, sig = 0.05).

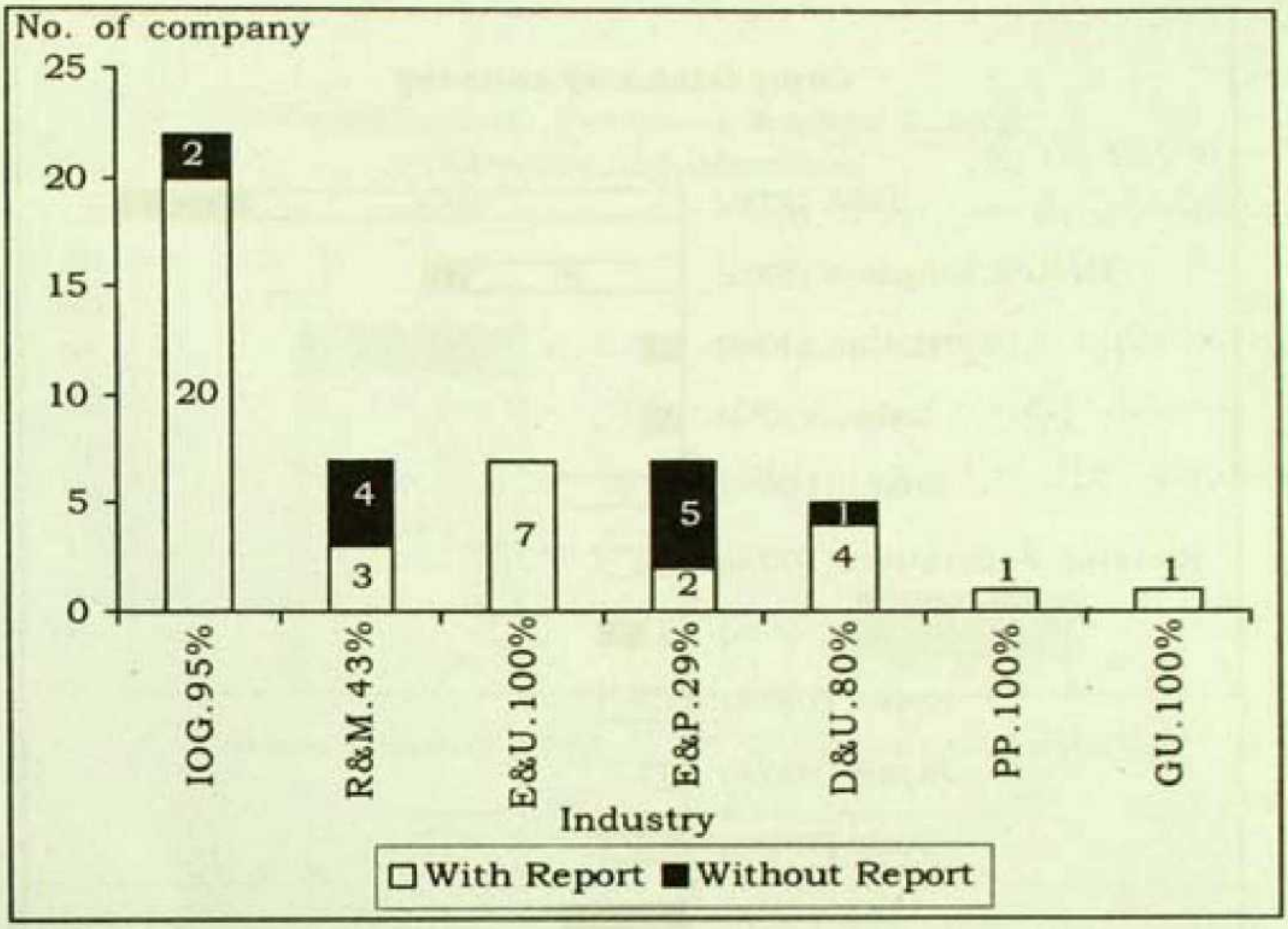
Figure 1
The size comparison



(ii) Industry

As can be seen from Figure 2 in the Integrated Oil and Gas group, the largest group, only 2 companies did not produce a sustainability report. By contrast, in the Exploration and Production five companies had no reports. Meanwhile, all the companies in the Energy and Utilities group produced reports.

Figure 2
Industry comparison

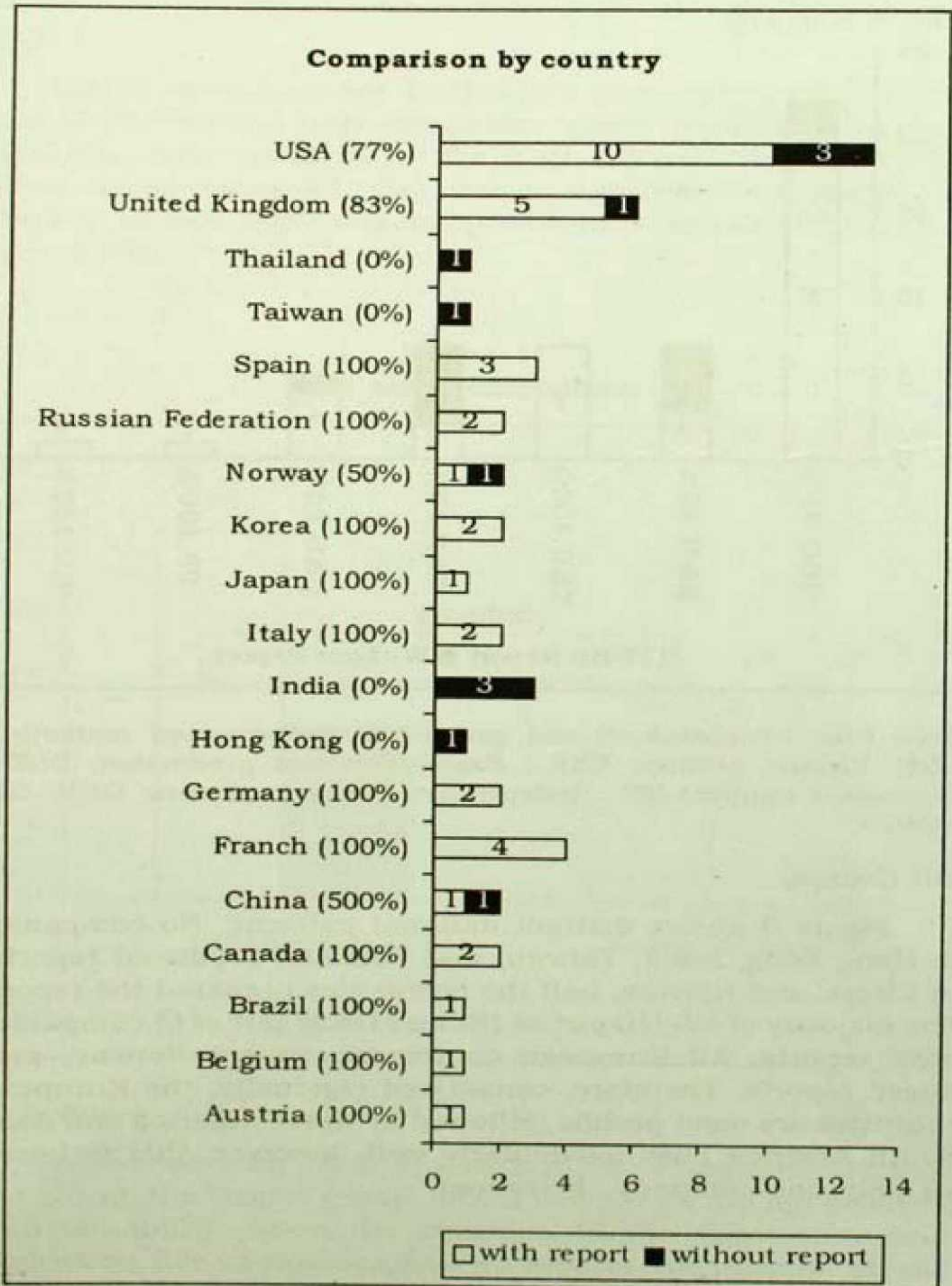


Note: IOG: Integrated oil and gas; R&M: Refining and marketing; E&U: Electric utilities; E&P : Exploration and production; D&U : Diversified utilities; IPP : Independent power producers; G&U: Gas utilities.

(iii) Country

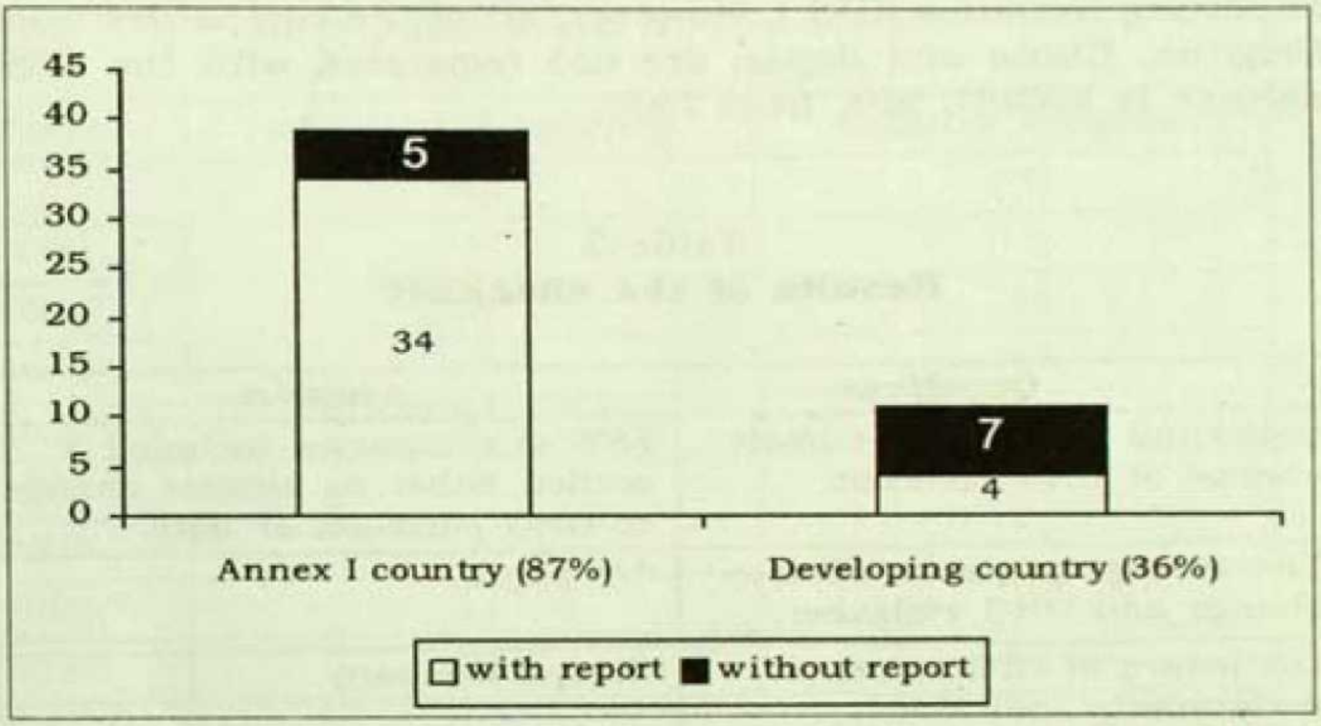
Figure 3 shows distinct national patterns. No companies in Hong Kong, India, Taiwan, and Thailand produced reports. In China, and Norway, half the companies prepared the report. The majority of US (10 out of 13) and UK (5 out of 6) companies have reports. All European companies, except Norway, produced reports. Therefore, considered regionally, the European countries are most prolific, followed by North America and Asia. South America does particularly well, however, this is based on only one company, Petrobras.

Figure 3
Comparison by country



(iv) The Annex I and Developing Country Group

Figure 4
Comparison between Annex I and developing country



Annex I country (Austria, Belgium, Canada, Germany, Italy, Japan, Spain, Russia Federation, UK, USA); Developing countries (Brazil, China, Hong Kong, India, Korea, Taiwan, Thailand).

There are 39 Annex I companies in total, and 11 developing companies (see Figure 4). 87% of Annex I companies have reports, but, only 36% of developing companies. Annex I countries are, therefore, over twice as likely to produce a sustainability report. When tested using X^2, whether a company was in Annex 1 or not was a significant explanator of whether a company produced a report ($X^2 = 9.61$, sig = 0.05).

B. Checklist findings

Table 1 shows the results of the checklist for the 38 companies with reports. More than half of the companies have an individual section on climate change or GHG emission or both (average of 4.1 pages). Almost 80% of companies disclosed environmental performance indicators and air pollution with an average of approximately 4 years comparative data.

47% of companies disclosed environmental expenditures and fines. Only 39% of companies disclosed information on the carbon trading scheme. In addition, it is noticeable that only half of the companies have an assurance report (15 European, 2 US, and 1 each from Japan, Brazil and Canada).

Lastly, 60% of companies have been certified with the EMS ISO14001 with 71% of companies registering with Global Reporting Initiative (GRI). However, all of the companies from Belgium, China and Japan are not registered with the GRI, neither is ENNEL SPA from Italy.

Table 2
Results of the checklist

Questions	Answers
Individual sections on climate change or GHG emission	58% of companies included a section either on climate change or GHG emission or both
The average pages on climate change and GHG emission	4.1 pages
Disclosure of environmental performance indicator	76% of company
Average years data	3.8 years
Disclosure of environmental expenditure and fines	47% of companies
Disclosure of air pollution	76% of companies
The average years data	4.3 years
Disclosure of GHG or CO_2 emission	63% of companies
Average years data	3.7 years
Attachment of audit report	53%
Ratification of Kyoto Protocol	Only US not ratified Kyoto Protocol, 25% of the total
Disclosure of carbon trading information	39% of companies
The certification of environmental management system ISO 140001	61% of the companies by the ISO 140001
Rgistration with Global Reporting Initiative (GRI)	71% of companies

(i) First year of the report publication

We investigated the first year in which the company published a sustainability report (see Table 3).

Table 3
Frequency distribution of the first publication of the report

Years	*Absolute Frequency*	*Relative Frequency*
	No.	%
2000	1	3
2001	4	10
2002	5	13
2003	4	10
2004	4	10
2005	9	24
2006	11	30
	38	***100.00***

The first company to produce a sustainability report was the Spanish company, Endesa SA, in 2000. Since then companies have increasingly provided sustainable reports.

(ii) Words used

In order to investigate the importance of the climate change and GHG emission in the report, the words on the "climate change" or " global warming" and "CO2" " carbon" were counted in each report (see Table 4). Very few companies mention either climate change or global warming. For example, only 10% of companies devote more than 40 words to "climate change" or "global warming". While only 43% of companies used more than 40 words for "CO_2" and "carbon".

Table 4

Frequency distribution of the words

Words on Climate change and Global warming :	**No**	**%**
(0-20)	28	74
(21-40)	6	16
(41-60)	2	5
(60 and above)	2	5
	38	**100**
Words on CO_2 and Carbon :	**No**	**%**
(1-20)	14	37
(21-40)	7	19
(41-60)	7	19
(61-80)	3	8
(81-100)	2	5
(101-120)	2	5
(121-140)	1	2
(140-above)	2	5
	38	**100%**

In terms of size, large companies (156 words) devoted more words on current environmental issues than small companies (28 words). There was some variation in industry between diversified utilities (62 words) and Integrated Oil and Gas (98) and IPP (independent power producers) with 19 words.

There were significant differences between the regions. The European countries have substantially the highest average (108 words). By contrast, disclosure in the other three regions is much lower (ranging from 18 to 26 words.).

Finally, Annex 1 countries have much higher disclosures (74 words) than those of the non-Annex countries (23 words). The main reason why the figures are so volatile is because UK companies have extremely high figures: BP has 1079 words on "climate change" and "global warming", with 1863 words on "CO2 and carbon". Meanwhile, Centrica has 111 words on climate change and global warming, and 211 words on CO2 and carbon. BP in particular is an obvious outlier.

(iii) Companies' awareness of climate change

Company awareness of current environmental issues was analysed into 6 different levels. Level 6 is the most likely to be aware with Level 1 being the least likely. The general rules for each level are explained below with occasional reasons for departures in special circumstances.

Level 1 represents those companies which do not produce sustainability report or the corporate social responsibility report. Level 2 is given to those companies with no standalone section on climate change or GHG emission. Level 2 is given to the companies with no reports, but which displayed a large amount of information on the reporting of climate change and GHG or CO2 emission on their website. Level 3 is generally given to the companies with reports, but without assurance reports.[1]

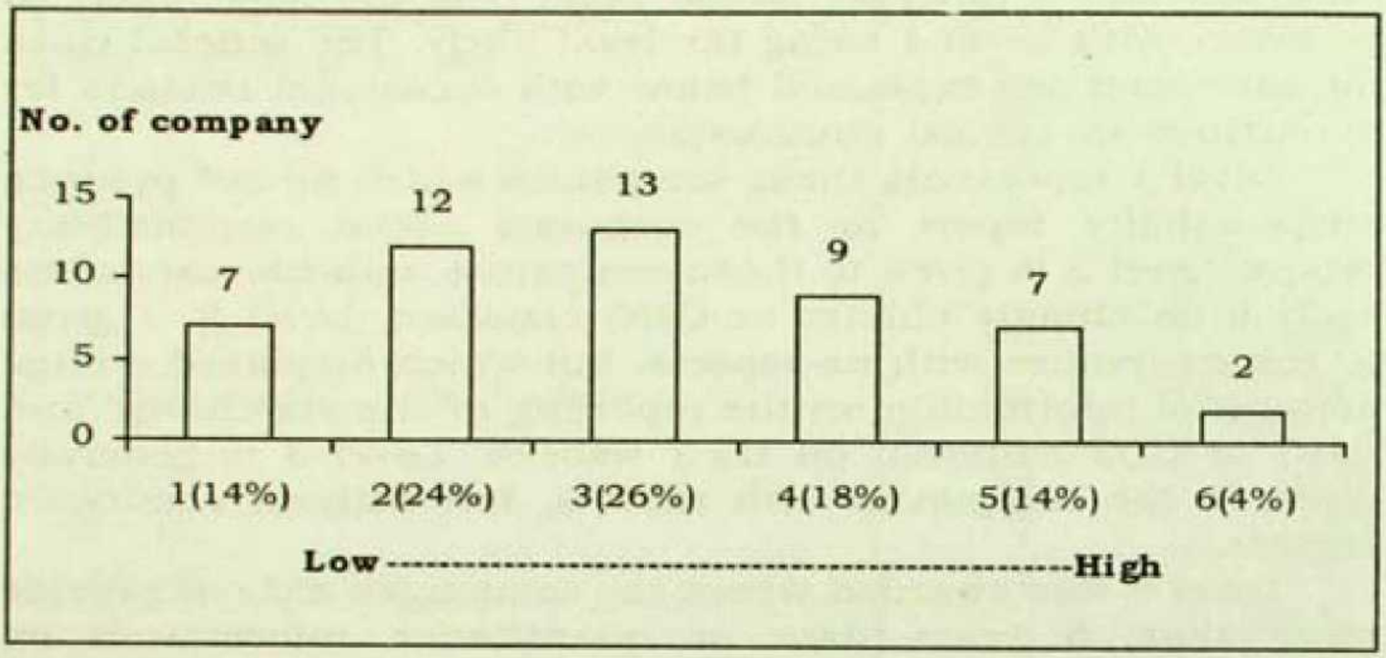
Level 4 was awarded where the companies did not provide more than 5 years data or quantitative information on environmental expenditures and fines. Level 5 was given to the companies with most of the criteria, but whose first report was after 2002.

Level 6 was given to the companies satisfying following five criteria:

- started producing a report before 2003 (the average year of first producing a report);
- located in a country ratifying Kyoto Protocol and displayed a full awareness of the current environmental issues (for example, more than 20 words on "climate change" and "global warming" and more than 60 words on "CO_2 "and "carbon") with full discussions on the risks, opportunities and mitigation necessities of climate change;
- a well-organized, easy to read, comprehensive environmental section, and individual climate change section;
- environmental performance indicators with more than 5 years data appropriately presented and disclosed with disclosure on environmental expenditure and fines;
- an independent assurance report.

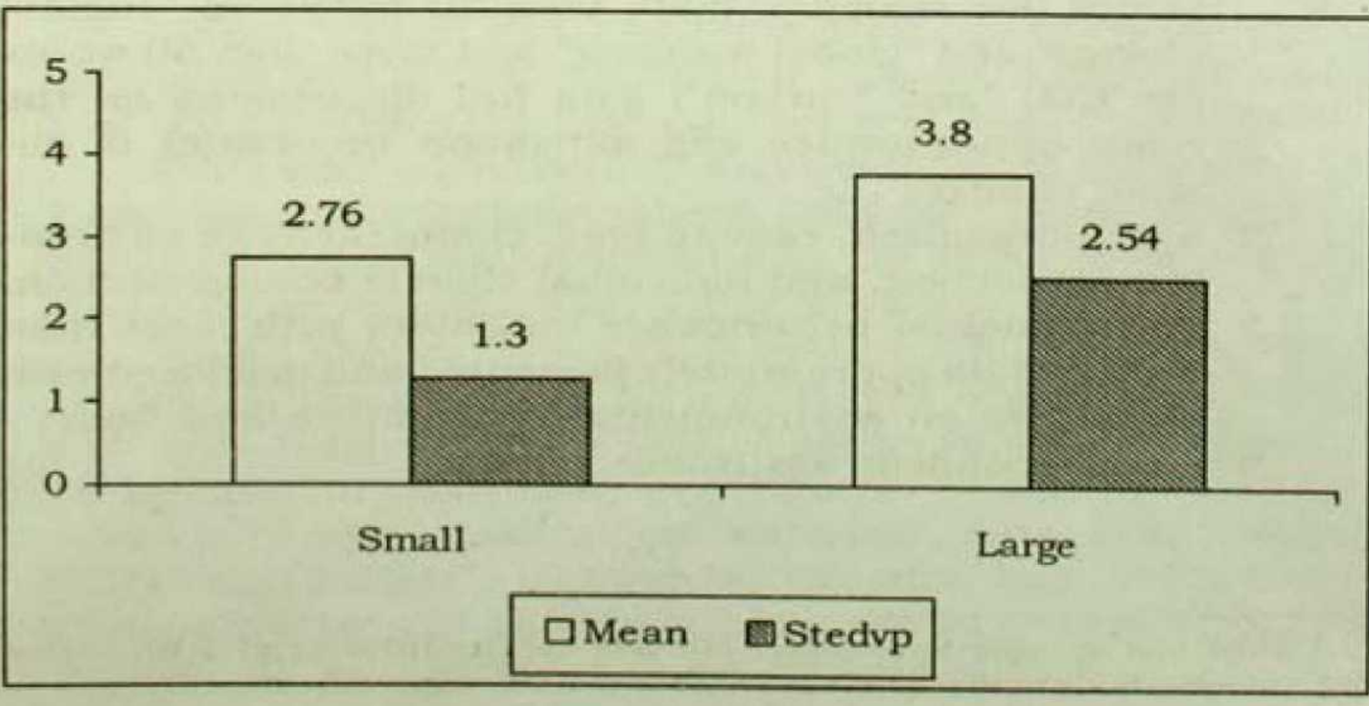
1 Total had an assurance report but was only awarded Level 3 because it did not clearly describe quantitative information, especially on CO_2.

Figure 5
Awareness level of climate change and GHG emission



As can be seen from Figure 5, levels 2 and 3 constitute about 50% of the total. The only two companies in Level 6 are UK's BP Plc and the French Suez Group. The effect of size, industry, country and annex 1 or not on awareness are outlined below.

Figure 6
Awareness level by size



Larger companies were more likely (3.7 mean) than the smaller companies to be aware (2.7) of climate change. However, the awareness level varies markedly among large companies. The only companies with Level 6 were BP Plc and Suez Plc.

As can be seen from Table 5, the average level of the Exploration and Production industry is the lowest, which is Level 2 (mean 1.9). Of those sectors with a substantive number of companies, the Integrated Oil and Gas (mean 3.2) and the Electronic Utilities (mean 3.1) lead the way. Gas utilities industry is the only one with Level 5.

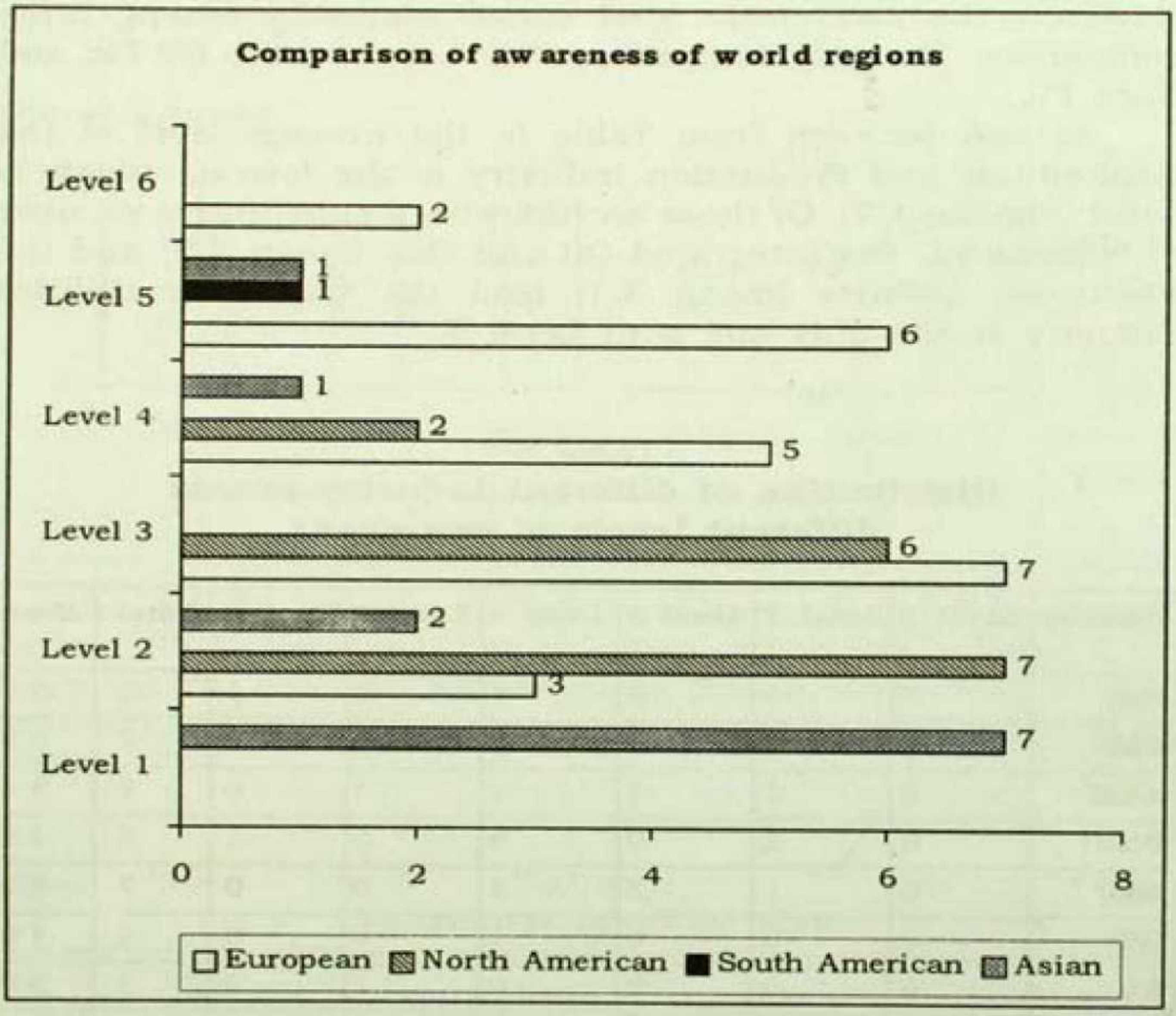
Table 5

Distribution of different industry across different levels of awareness

Industry	Level 1	Level 2	Level 3	Level 4	Level 5	Level 6	Total	*Mean*
IOG	2	4	8	4	3	1	22	3.2
E&P	2	4	1	0	0	0	7	1.9
R&M	3	1	1	1	1	0	7	2.4
D&U	0	2	0	0	2	1	5	4.0
E&U	0	1	3	3	0	0	7	3.1
IPP	0	0	0	1	0	0	1	4.0
GU	0	0	0	0	1	0	1	5.0
Total	7	12	13	9	7	2	50	

The means for the four regions vary markedly. South America was the most aware (5), followed by Europe (3.8) and North American (2.7). Asia had the lowest awareness with 2.4. However, it should be borne in mind that the South American sample consisted of only one company 'Petrobras' (see Figure 6).

Figure 6
Comparison of awareness of world regions



European companies' awareness varies between Level 2 and Level 6. Most of the companies are distributed in Level 3 and Level 5. Asian countries had 7 companies at level 1, with 2 companies at the Level 2. Only one company was at Level 4 (Korean SK Corp) or Level 5 Japanese Nippon Oil Corp. All of the North American companies are distributed between Level 2, Level 3, and Level 4.

Annex 1 countries have an average awareness of 3.4, with non-Annex 1 countries having an average awareness of 1.8. The 39 Annex 1 countries consistently scored higher marks than developing countries with 2 at Level 6, 7 at both Level 4 and 5 and 12 at Level 3. By contrast most of the 11 developing countries were at Level 1 (7) or Level 2 (2).

4. Conclusion

Recently, climate and the emerging effects of GHGs and carbon dioxide emissions have attracted increasing world attention especially after the publication of Sir Nicolas Stern Review and the Fourth Guidelines from the IPCC. Greenhouse gases are now almost universally acknowledged as being caused mainly by human activities. The energy sector is one of the business sectors most influenced by climate change (Stern, 2006). This study, therefore, investigated corporate reporting of climate change data in corporate sustainability reports. These reports can deliver a clear view of a company's environmental performance to a wider range of readers (i.e., the company's stakeholders, including the government, the local community, the pressure groups).

The main findings are outlined below. First, 38 out of 50 companies published sustainability reports with the bigger companies significantly more likely to produce them. Second, companies in the Exploration and Production industry were the least likely, while those in Integrated Gas and Oil and in Electric Utilities were most likely to produce reports. Third, European, North America and South American companies are the most likely to produce the reports; with Asian companies, (except in Japan and Korea), are the least likely to produce them. Fourth, Annex I countries are significantly more likely to produce reports than the developing countries. The 13 companies with no sustainability reports are mainly Asian and developing countries (e.g., India and Thailand).

There was great inter-company variation in the standard and quality of the environmental information (especially in climate change, GHG and CO2 emission). Disappointingly, most of the information disclosed was neither detailed nor accurate. Many of GHG emission graphs or tables failed to indicate exact emission figures. This suggests that they may be serving a public relations role. Moreover, the information is partly selective and not presented in an appropriate format. Only 14 companies, for example, reported details of environmental expenditure and fines.

We examined the 50 companies' awareness of the climate change and GHG or CO_2 emission in general using a self-constructed index comprising 6 levels. In general, companies scored between Level 2 and Level 3, signalling an awareness

of current environmental issues, but suggesting low accountability and transparency.

Future research into corporate disclosure of climate change is essential in a carbon-constrained economy, especially international comparative studies across different countries. Particularly useful would be more work on disclosure levels of GHG and CO2 emissions and carbon trading. Public disclosure and accountability may well help to contribute to the reduction in carbon emissions and hence global warming.

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Appendix 1

Summary of the 50 companies

Platts	Company rank	Country Name	Industry	In Annex I Or Developing Countries	Asset ($ Mil)
1	Exxon Mobil Corp.	US (Texas)	IOG	Annex I	208335
2	Royal Dutch Shell plc	United Kingdom	IOG	Annex I	219516
3	BP plc	United Kingdom	IOG	Annex I	206914
4	Total	France	IOG	Annex I	133958
5	Conoco Phillips	US (Texas)	IOG	Annex I	106999
6	Petro China Co. Ltd.	China	IOG	Developing	97227
7	Chevron Corp.	California	IOG	Annex I	125833
8	Petrobras1	Brazil	IOG	Developing	80580
9	ENI2	Italy	IOG	Annex I	105822
10	Statoil ASA	Norway	IOG	Annex I	46570
11	Valero Energy Corp.	US (Texas)	R&M	Annex I	32728
12	Marathon Oil Corp.	US (Texas)	IOG	Annex I	28498
13	Occidental Petroleum Corp.	California	IOG	Annex I	26108
14	China Petroleum & Chemical Corp.	China	IOG	Developing	67143
15	LUKoil	Russian Federation	IOG	Annex I	29761
16	Repsol YPF SA	Spain	IOG	Annex I	57779

Appendix 1 (contd...)

Platts	Company rank	Country Name	Industry	In Annex I Or Developing Countries	Asset ($ Mil)
17	Electricité de France	France	EU	Annex I	215701
18	Centrica plc	United Kingdom	DU	Annex I	24579
19	Gazprom Oao	Russian Federation	IOG	Developing	118502
20	Oil & Natural Gas Corp. Ltd.	India	E&P	Developing	17207
21	Norsk Hydro ASA	Norway	E&P	Annex I	36614
22	E.ON AG	Germany	EU	Annex I	159727
23	ENEL SpA	Italy	EU	Annex I	63736
24	Imperial Oil Ltd.	Canada	IOG	Annex I	13940
25	Electrabel SA	Belgium	EU	Annex I	39081
26	Suez	France	DU	Annex I	101319
27	Endesa SA	Spain	EU	Annex I	69873
28	Gaz de France	France	GU	Annex I	56511
29	RWE AG	Germany	DU	Annex I	136455
30	Reliance Industries Ltd.	India	R&M	Developing	21099
31	PTT plc	Thailand	IOG	Developing	16922
32	Nippon Oil Corp.	Japan	R&M	Annex I	36833
33	BG Group plc	United Kingdom	IOG	Annex I	20954
34	EnCana Corp.	Canada	E&P	Annex I	35608
35	Duke Energy Corp.	(US) North Carolina	DU	Annex I	54723
36	Devon Energy Corp.	(US) Oklahoma	E&P	Annex I	30273
37	National Grid	United Kingdom	DU	Annex I	47944
38	CNOOC Ltd.	Hong Kong	E&P	Developing	14341
39	SK Corp.	Korea	R&M	Developing	44886
40	OMV AG	Austria	IOG	Annex I	19500

Appendix 1 (contd...)

Platts	Company rank	Country Name	Industry	In Annex I Or Developing Countries	Asset ($ Mil)
41	Indian Oil Corp. Ltd.	India	R&M	Developing	17028
42	Apache Corp.	US (Texas)	E&P	Annex I	19272
43	Sunoco Inc.	US (Pennsylvania)	R&M	Annex I	9931
44	TXU Corp.	US (Texas)	IPP	Annex I	25539
45	Hess Corp.	US (New York)	IOG	Annex I	19115
46	Formosa Petrochemical	Taiwan	R&M	Developing	12463
47	KEPCO3	Korea	EU	Developing	76732
48	Anadarko Petroleum Corp.	US (Texas)	E&P	Annex I	22588
49	Scottish & Southern Energy	United Kingdom	EU	Annex I	15127
50	CEPSA4	Spain	IOG	Annex I	10695

Corporate Social Responsibility : A Comparison of Practices of Some U.S. and Indian Companies

Melkote K. Shivaswamy

Bhabatosh Banerjee

Abstract

Corporations increasingly recognize multiple stakeholders and acknowledge their debt to societ, owing to governmental regulations and emergence of several interest groups that exert pressure on corporations to behave in a socially responsible manner. This paper examines the scope, content, and evolution of corporate social responsibility (CSR) reporting and speculates on the future. Inferences are based on a study of reports from six companies—three American and three Indian.

Our study suggests that early corporate social responsibility reporting in the United States was confined to advertisements and brief sections in annual reports. Changes have come fast and furious, some in the last decade of the 20th century, but mostly in the 21st century. Reporting is widespread, and the reports are sophisticated in format, structure and content. They increasingly follow guidelines provided by the Global Reporting Initiative (GRI). In India, CSR reporting is only beginning to evolve and resembles early U.S. reporting.

Key words : CSR Reporting; ISEAL; Sustainability Report; Corporate Equality Index; Content Analysis; Philanthropy.

1. Introduction

Corporations are indebted to society that sustains them. It is their obligation to pursue goals that do not conflict with socially responsible behaviour. The owners/shareholders expect rewards through higher dividends and/or stock price. The employees expect job security, a safe working environment, support for their training and development, an environment

where there is no discrimination on grounds of race, sex, and age, support and encouragement for their volunteer efforts, and respect for their privacy and individuality. The customers expect products of six sigma quality that are safe to use and priced fairly, prompt service after sales, and truth in advertising. The community expects corporations to get involved in the welfare of children, families and disadvantaged groups, to prevent pollution of air, water and earth, and to participate in clean up if they do pollute. Charitable organizations, such as Red Cross and United Way, expect contributions in cash and kind. In short, corporate social responsibility (CSR) could take many forms and involves balancing the interests and concerns of multiple stakeholders (Hellriegel, 2002, Williams, 2005, & Shivaswamy 2005).

2. Objectives of the Study

How has CSR reporting evolved? What is the current scope and state of CSR reporting? How and what are businesses actually reporting on in their Social Responsibility/ Sustainability Reports? How does India fare in this respect as compared with the United States? Answers are sought to these and related questions. Inferences are based on a study of reports from three American and three Indian companies.

3. Methodology

Two popular techniques used to determine the extent of CSR disclosure are (i) Content Analysis and (ii) Coding. Content analysis uses a set of procedures for making valid inferences from published information (Weber, 1990). In Coding, raw data are transformed systematically and aggregated into units that permit precise description of relevant content characteristics (Holsti, 1969). These techniques are very useful when the sample size is large and time series analysis is made (Paul & Pal, 2001). As the sample size for our study is very small and relates to only one financial year, we decided to examine each CSR report thoroughly and summarize them. The remainder of the paper is organised as follows. The evolution and scope of CSR are given in section 4. In section 5, we give a brief outline of the catalysts. Section 6 contains the case studies split into two parts - part A deals with the US, and part B, with the

Indian environment. The last section contains the concluding observations.

4. Evolution and Scope of CSR

Corporate reporting on social responsibility is a relatively recent phenomenon. Early reports on social responsibility were either advertisements or brief sections in annual reports that were confined to environmental issues. A serious pioneer effort was by Ben and Jerry's who hired a "social auditor" to help its staff on a report for 1988. The social auditor recommended division of the "Stakeholders' Report" into five major categories: (1) Communities (Community Outreach, Philanthropic Giving, Environmental and Global Awareness), (2) Employees, (3) Customers, (4) Suppliers, and (5) Investors. Social Accountability International (SAI) in 1997 developed multi-stakeholder global standards for reporting on social issues. Pioneers on the environmental front were the Forest Stewardship Council, the International Federation of Organic Agriculture, and the Dutch Max Havelaar Foundation, who joined hands with SAI to form Social and Environmental Accreditation Labeling (ISEAL). ISEAL, an international accreditation agency, provided meaningful social and environmental standards for organizations that certify Social Responsibility Reports (Martin, 2003).

The Global Reporting Initiative (GRI) came up with its first full version of Sustainability Reporting Guidelines in 2000. GRI was formed in 1997 by the *Coalition for Environmentally responsible Economies* (CERES), a U.S. based non-profit organization, and Tellus Institute with support from the United Nations Environmental Programme (UNEP). GRI's third generation of guidelines, launched in October 2006, serve as the gold standard for sustainability reporting and more than 1,000 organizations from 60 countries use the Guidelines in producing their sustainability reports. The GRI's mission is to make sustainability reporting similar to financial reporting based on generally accepted accounting principles (GAAP), comparable over time and across business entities.

5. Catalysts

The clamour for socially responsible conduct and reporting by corporations is loud and clear. Organizations that have influenced, encouraged and rewarded good corporate conduct

and social reporting are many—The American Association of Retired Persons (AARP) with its "50 Best Companies for Workers Over Fifty;" *Working Mother's* "100 Best Companies For Working Mothers;" *Business Week* with its list of "Best Places to Launch a Career;" *Diversity Inc. Magazine's* "Top 50 Companies for Diversity;" *Business Ethics Magazine's* "100 Best Corporate Citizens;" *African Medical and Research Foundation* with its "Global Corporate Philanthropy Award;" *The World Council for Corporate Governance and Center for Sustainability and Excellence* with their "Golden Peacock Award for Corporate Social Responsibility Reporting;" and *The U.S. Environmental Protection Agency* with its "Climate Leadership Program." Recognition for socially responsible corporations also comes by way of inclusion in prestigious indexes such as the *Dow Jones*' Sustainability World Index (DJSI), the *Carbon Disclosure project's* (CDP) Climate Disclosure Leadership Index, and *Human Rights Campaign*'s Corporate Equality Index. The DJSI World captures the top 10% of the world's 2,500 largest companies based on corporate economic, environmental and social performance. The DJSI North America captures the top 20% of the largest 600 North American companies of the Dow Jones Global Index. The indices are used by asset managers and investors to manage a variety of financial products and portfolios. The Climate Disclosure Leadership Index (CDLI) is comprised of 68 Fortune 500 companies. CDP is a coalition of more than 315 socially responsible global investors with more than $41 trillion in assets.

The "Corporate Equality Index," evaluates how major U.S. corporations treat their gay, lesbian, bisexual and transgender (GLBT) employees, consumers and investors. 138 major U.S. companies scored 100 percent on the Corporate Equality Index in 2006. Corporate performance is assessed based on criteria such as non-discriminatory employment policies, same-sex domestic partner insurance, diversity training, and corporate social responsibility.

The Clinton Global Initiative (CGI) launched in 2005, is an annual event that brings together world leaders to discuss and develop workable solutions to some of the world's most pressing challenges that include poverty, human rights, global warming and climate change. Al Gore's documentary on climate change - "The Inconvenient Truth," won an Oscar. Further highlighting the importance of the environment is the recent award of the

Nobel Peace Prize to Al Gore and an Inter-governmental panel on Climate Change chaired by Rajendra Pachauri (Robinson, 2007).

The foregoing discussion provides a comprehensive, multi-faceted view of corporate social responsibility. To what extent have such initiatives and recognitions impacted corporate social behaviour and encouraged candid reporting by corporations? The current state of reporting will be examined in the following section through the study of a sample of six companies—three American in part A and three Indian companies in part B.

6A. American Sample

The three American companies selected for study through deliberate sampling are (1) Coca-Cola Company from the beverage group, (2) United Parcel Service (UPS) from the package delivery group, and (3) General Electric, a conglomerate. Whereas deliberate sampling does reveal the authors' bias, the reasons for the choice have objective validity. All three are large, high profile multi-national companies; all three are on Fortune magazine's list of "America's Most Admired "Companies (Fisher, 2007); and their reports for 2006-07 are comprehensive and easily accessible to the reader through the worldwide web. We will begin with analysis of The Coca-Cola Company 2006 Citizenship Report and follow it up with Reports for UPS and GE.

(i) Coca-Cola Company 2006 Citizenship Report

The forty-four page 2006 Report covers the period from January 2006 to July 2007. To obtain a clear picture of how reporting has evolved in the most recent years, we also studied the 2003 Report for Coca-Cola. A brief outline of the latter is given in the endnote (1). The 2006 Report has a more formal layout, is better organized, and is more elaborate in scope. It does much more than merely discuss the various initiatives. The principles, policies and practices contained in the 2003 Report are also a part of this report. The Chairman and CEO refers, in his letter, to the Workplace Rights Policy laid out in January 2007 based on the principles evolved by the International Labor Organization and other human rights organizations, that formalizes the Company's commitment to fair

treatment of its 71,000 associates throughout the world. The President and Chief Operating Officer's letter highlights updated *Supplier Guiding Principles* holding the Company and its suppliers to higher standards of conduct and responsibility. He refers to a 16% improvement in energy efficiency in manufacturing process, refrigeration and insulation equipment since 2002, and to a reduction in their carbon footprint through energy-efficient hydrofluorocarbon (HFC)-free vending machines and coolers. Investment in five bottle recycling plants since 1994 to reduce waste and prevent environmental damage is offered as an illustration of responsible environmental leadership. The Company publicly reaffirmed its commitment to a set of core values relating to human rights, labour standards, the environment and anti-corruption, by becoming a signatory to the *UN Global Compact* in 2006.

The Report provides a summary of performance metrics but is quick to point out that their reporting on corporate responsibility is still evolving and that they are striving toward better metrics. The Report has undergone a rigorous internal review and the qualitative and quantitative claims and calculations have been verified. Feedback sessions with stakeholders were held and the improvements suggested by them included as part of the report. Stakeholder views are also sought via electronic mail. Included in the Report are UN Global Compact Principles and the Company's first GRI Index based on GRI's latest Guidelines. A chart containing a summary of performance with Progress ratings based on self assessment are provided. The Company is part of both the FTSE4 Good Index and the Dow Jones Sustainability Index.

Similar to the 2003 Report (see end note 1), the 2006 Report discusses the initiatives of the System in various parts of the world. The following section relates only to India. Other geographical areas have been omitted for the sake of brevity.

Initiatives in India

The Report points to problems of water shortage and the challenge of rainwater storage in India. A 35% reduction of water consumption in its Indian operations is reported. Mention is made of its involvement in more than 300 rainwater harvesting systems across 17 states. More than a third of the water they use, it is claimed, is renewed and returned to groundwater systems. The Company is a participant in a project

with the Association of Official Analytical Chemists (AOAC) International to help the Government of India develop appropriate pesticide standards. The Company pledges full cooperation with Energy and Resource Institute, an India-based non-governmental organization, in its independent assessment of its (Company's) water resource management practices. The other problem mentioned is HIV/AIDS. The programme which was begun in Africa in 1999 has since been extended to India, among other countries.

The concluding section of the report enters a caveat about the risks and uncertainties that surround statements made about the future. An Environmental Statement which follows recognizes the responsibility of each associate of the Coca-Cola Company for stewardship of natural resources and for the protection and preservation of the environment.

(ii) United Parcel Service (UPS) 2006 Sustainability Report

UPS is the world's largest package delivery company and a global leader in supply chain services. It also runs the eighth largest airline. At the beginning of its109 pages-long fifth *Corporate Sustainability Report* (2006) is a *Sustainability Statement* which affirms that business success depends on balancing economic, social and environmental objectives. The *Statement* recognizes employees, customers, communities and shareholders as stakeholders in the business. The *Letter from the President* that follows recognizes stakeholders' increased concern for transparency and highlights the company's progress in areas of safety, energy conservation, reduction of emissions and volunteer activities in the community. The letter lays claim to socially responsible behaviour through 100 years of its history. The report has six major sections. Following two brief sections about the UPS are sections on the Economic, Social, and Environmental impact. A concluding section is on Future Performance. Key Performance Indicators (KPIs) are employed in measuring performance. The targets set for 2007 in an earlier Report are used as benchmarks. UPS uses the Global Reporting Initiative to identify KPIs that are relevant to the industry: the full time retention rate, employer of choice index, philanthropy as a percentage of adjusted profit and total UPS charitable contributions, automotive accident frequency, and lost-time injury frequency. The Environmental KPIs are: penalties as a percentage of environmental agency inspections,

water consumption, energy footprint, ground network fuel efficiency, global aircraft emissions, percentage of fleet that meets stage 4 noise requirements, greenhouse gas emissions footprint, number of reportable spills, and hazardous waste. What follows are some of the metrics that are provided by the company.

(a) *Safety*: Number of lost-time injuries per 200,000 hours reduced by 28%, a target reached a year ahead of the 2007 schedule. 1.7 million hours of safety training costing $73 million annually provided to employees through 54 different types safety training courses throughout the world.

(b) *Workforce Investment*: Invested $24.4 billion in employees worldwide that included $8.6 billion in income protection, healthcare benefits and retirement plans and $113 million 401-k savings and stock matches.

(c) *Number and Volume of Reportable Spills:* Number of reportable spills decreased from 42 to 33. Total reportable spill volume decreased to 1,195 gallons. Ultimate goal is to reduce spills to zero.

(d) *Total Energy Consumption and Consumption/Package*: Total energy consumption increased by 4% and energy consumption per package increased by 0.7%. The company's fuel consumption per package increased by 2.2%. The report also mentions recognitions relating to sustainability that the company has received

(e) *Recycling*: Recycled 2.7 million pounds of its electronic equipment. Since 2000, when the programme began, 19.7 million pounds of electronic equipment have been re-cycled. 36,800 tons of solid waste, including metals, plastic, corrugated material, pallets and wood waste were recycled in 2006. Additionally, UPS purchased 36,300 tons of materials with recycled contents.

(f) *Use of Alternative Technology*: In 2006, UPS Purchased 50 next generation hybrid electric vehicles and is testing, along with EPA and others, the world's first fully hydraulic urban delivery vehicle.

(g) *Community Investment:* Volunteers collectively logged more than 9,59,000 hours world wide through the company's Neighbour to Neighbour Volunteer Programme. Encouraged participation in the Third

Annual UPS Global Volunteer Week, during which more than 23,000 employees volunteered 154,000 hours in more than 50 countries. UPS Foundation's global contribution totaled $45.9 million. Contributions to United Way by UPS and its employees totaled $59.3 million, making UPS the top contributor for the seventh consecutive year.

(h) *Recognitions*: Included in the Dow Jones Sustainability Index for fifth consecutive year and the FTSE4Good Index for the third consecutive time. Named the most socially responsible company among all companies in *Fortune* magazine's "America's Most Admired" Survey. Included in *Business Ethics* magazine's "100 Best Corporate Citizens." *Business Week* magazine ranked it as one of the best places to launch a career.

It can be readily seen that most prominence in this Report is given to Social and Environmental metrics. Seventy pages of this Report out of a total of 109 pages are devoted to these two sections. For all three companies, the Sustainability Report is a 21st century phenomenon and will, very likely, be an annual feature in the years to come.

(iii) Investing in a Sustainable Future: General Electric (GE) 2006 Citizenship Report

GE was named *Fortune* magazine's "Most Admired" U.S. and global corporation for the second straight year in 2007, and for the seventh time in a decade. Its third Citizenship Report affirms GE's commitment to GRI Sustainability Reporting Guidelines. It has used the latest GRI "G3" Reporting principles of (1) balance, (2) comparability, (3) timeliness, (4) accuracy & reliability, and (5) materiality, to ensure quality reporting. Balance refers to candour in reporting both favourable and unfavourable results from the application and use of its products and services. Comparability relates to the inclusion of the GRI Index, and data/metrics for a period of five years where available. Timeliness is about reporting at the same time every year. GE adheres to the accuracy and reliability principle by having the internal audit staff verify all metrics and claims made in the report and by having the Report reviewed and approved by senior management.

Another step GE took to ensure quality was to constitute a Stakeholders' Review Panel (SRP) for review and comments

before actually publishing the report. The Report affirms its commitment to increased and on-going dialogue and discussion with its multiple global stakeholders.

The Report, 116 pages in seventeen sections, outlines the Company's commitments to social responsibility, the progress made in 2006 and its plans and expectations for 2007. The company recognizes its obligation to produce eco-friendly, energy-efficient products and invest in research leading to their development. In a first of its kind partnership, GE signed a Memorandum of Understanding (MOU) with Air India in February 2007 for supplying eco-efficient engines. It also signed an MOU with Harayana Technology Park for a green building project and made a commitment to spend up to $150 million on eco-related research and development at its Technology Centre in Bangalore.

GE and Emerging Markets: GE has operations in more than 100 countries and aspires to be a leader in corporate citizenship at home and abroad. The Company is conscious of the fact that more than 50% of its revenues come from countries outside the United States. GE's emerging market revenues rose from $10 billion in 2000 to $29 billion in 2007 and are expected to touch the $50 billion mark by 2010. The company is aware that their social behaviour in emerging markets is being closely watched. GE recognizes that most dynamic growth opportunities are in emerging markets where 80% of the world's population lives. The company sees in emerging countries an opportunity to lay the foundation for good corporate citizenship by helping them meet challenges such as infrastructure development, access to energy, clean water and better healthcare.

GE's Commitment to Ethics: GE is committed to a culture of integrity, openness and transparency. It expects fair, honest and trustworthy behaviour of its employees. It requires a commitment to honouring the laws and regulations of the various countries in which it has business interests. Compliance to its standards of integrity is a particular focus in emerging markets and in businesses that are acquired by the company.

(d) Environment, Health and Safety: GE believes in promoting health and safety of its employees and reducing its adverse impact on the environment. It has an information system equipped to provide data in the area of environment, health and

safety. Some examples are the injury and illness rates were reduced by 9% and lost time rates by 4% in 2006. While production and number of manufacturing sites increased during the year, environmental damage caused by air pollution, wastewater and spills remained essentially the same as before.

The company won more than 215 awards for EHS excellence that included awards in India to GE Plastics from the Gujarat Safety Council and the Chief Inspector of factories.

(e) Community and Philanthropy: Healthcare and education and increased volunteer participation are listed as GE's major priorities in this area. GE, concerned about declining scores in mathematics and science, pledged to spend $100 million on the U.S. public school system. *The College Bound Program* that GE Foundation started in 1989 had the goal of increasing the percentage of students going from high school to college. The *New GE Foundation Globally Competitive K-8 Mathematics Standards* are intended to catch up with standards in high performance countries such as Singapore, Japan and the Netherlands. In 2006, the GE Foundation, in partnership with *Save the Children in Malawi*, initiated "Building a Brighter Future for Malawi Girls," a project intended to provide them access to schools.

Education Initiative in India: Pratham received a $2 million recent grant from the GE Foundation to further the cause of quality education in India. A primary school pilot programme, sponsored by the GE Foundation in Bangalore and Hyderabad, had covered 140,000 students in 1,600 schools. The programme supports teacher training, curricula development, technology improvement and assessment, with a view to enhancing the quality of teaching and learning. The programme's success is evidenced by 70,000 children from Bangalore schools who learned to read after participation in an intensive literacy programme.

GE's philanthropic efforts are through donations of eco-friendly products, and employee volunteer service. Its active involvement and success in hospital upgrade projects in rural Ghana prompted its extension to several other African countries. The Company plans similar projects in Latin America for 2007.

In the area of disaster relief and readiness, GE cites school rebuilding efforts in the U.S. after hurricane Katrina, subsidized relief efforts for typhoon victims in the Philippines and Vietnam, relief for refugees in Darfur, Sudan, and help to GE

employees who lost their homes in an earthquake in Yogyakarta. Key volunteer initiatives such as support and involvement in Junior Achievement are described.

(f) Employees: GE wants its employees to grow professionally and personally and to make a positive impact on the business and community. GE invests more than a billion dollars a year on employee training and development initiatives. The first-of-its-kind John F. Welch Learning Center in Croton Ville, New York, recently celebrated 50 years of its existence. The number of online courses completed numbered 3.4 million in 2006. Statistics on U.S. race and ethnicity representation and global female representation are provided. Employee relations (opinion surveys are conducted bi-annually), employee benefits, prudent pension plan management and health and well-being of its employees, are among other topics discussed in this section.

6B. Indian Sample

Initially, 2006-07 Annual Reports for 10 private sector companies were scanned for their CSR content. They were reports of Gujarat Ambuja Cements Ltd., Hindalco Industries Ltd., Infosys, Larsen & Toubro Ltd., Nestle, Ranbaxy, Reliance Industries Ltd., Reliance Petroleum Ltd., Satyam Computer Services Ltd. and Tata Chemicals. We found that CSR reporting practices varied widely. Some publish only one or two paragraphs on CSR, either as part of director's report, MD&A, or as company highlights. Such companies were dropped. Five of these ten companies- Gujarat Ambuja, Infosys, Ranbaxy, Reliance Industries Ltd. and Satyam Computers, emphasized CSR by publishing information under the "Corporate Social Responsibility" caption. We selected three of these for further study: Reliance, Ranbaxy and Satyam, companies representing three different industry-groups, based on the extent of their CSR coverage, to enable comparison of practices between India and the United States and across industries.

These companies are among the thirty that are considered for computing the Bombay Stock Exchange (BSE) Sensex. The scrips of these companies, along with the others, no doubt impact considerably the movement of sensex. Therefore, CSR reporting of these companies may be a pointer to prevailing CSR practices in India.

The next issue is of the manner of publication of CSR information in the annual reports of the selected companies that report relevant information under the banner of "Corporate Social Responsibility". In most cases, information is presented under different sub-themes or sub-heads viz., Healthcare, Safety, Education, Environment and Community Development. Integrity of these sub-groups is maintained in the analysis and any additional information on CSR is included under "Other" or "Miscellaneous" group.

Company Profiles

Before we summarize the CSR information company-wise, a few words on the sample companies may not be out of context. **Reliance Industries** is one of the Fortune Global 500 companies in the list of "World's Largest Corporations" for the fourth consecutive year (its ranking was 269th in 2007). Its products include: (i) Petro-chemicals, (ii) Petroleum refineries, (iii) Oil and ,Gas, (iv) Textile, (v) Retail business and (vi) SEZ development. Its CSR 2005-06 based on the new set of Sustainability Capital Reporting Guidelines (G-3) has been rated as "GRI Checked A + level" by GRI. Its total assets as on 31.3.2007 amounted to Rs.1, 17,353 crore.

Satyam Coputers is one of the pioneering companies in the knowledge economy the world over. Today more than 160 Fortune Global 500 and Fortune US 500 corporations partner with Satyam for their off-shoring needs. Since its inception, 20 years ago, Satyam has consistently innovated across various aspects of the enterprise – process, technology, business and engagement models and service offerings. Its total assets as on 31.3.2007 amounted to Rs. 5,936 crore. Satyam Foundation (with 6 chapters located at Hyderabad, Pune, Bangalore, Bhubaneshwar, Gurgaon and Chennai) supports and strengthens the vulnerable and under-privileged section of the society. The vision of the Foundation is to bridge the increasing gap for the under-privileged and to transform the quality of life.

As a global leader in pharmaceuticals, **Ranbaxy** takes pride not only in providing products that enable people to live "healthier and fuller lives", but also in giving back to the society. Its CSR commitment is a manifestation of its determination to improve the quality of life for the community at large. Its total assets as on 31.12.2006 amounted to Rs.6,925 crore.

Categories of CSR reports

Reliance Industries reports initiatives in all categories: healthcare, the environment, education, safety, and other. Ranbaxy's initiatives extend to healthcare, the environment and safety. The initiatives of Satyam Computers are confined to healthcare and the environment. The summary of the CSR report published by each of the sample companies is given in table 1.

A comparison of different CSR metrics of the three companies shows that all of them are giving emphasis on reporting respective companies activities in healthcare, environment and safety, although the level of reporting varies among them. Given the extent of economic development and the social condition of the people in India, it is quite in the fitness of things that the companies adopt measures that contribute to quality of life. Among the three sample companies, Reliance, however, has outperformed Ranbaxy and Satyam in terms of CSR reporting.

Table 1

Summary of CSR reports published by some notable Indian companies

	Reliance Industries	*Ranbaxy*	*Saytam Computers*
Health Care	• Maintaining health centres for pre-employment and periodic check-ups. • Occupational hazards reduced through Change Agents for Safety and Health (CASH) initiatives during last 4 years. • HIV/AIDS checking centre at Hazira, Jamnagar and Patalganga Plants. • Mobile health care unit at Gradioga village (AP) and SEZ developed in Haryana. • Mobile dispensaries at Moti Khavdi and Sikka Town to treat about 5000 people. • 7,912 mothers and children were treated in and around Moti Khavdi village.	• Ranbaxy Community Healthcare Society (RCHS) provided healthcare to underserved section of the society. • 7well equipped mobile health care vans operated in Punjab, Haryana, HP, MP and provided services to over 2,00,000 people in 100 remote slum areas. • Competent medical staff team focussed on material child health, family planning, AIDS awareness. • RCHS achieved reduction in Infant Mortality Rate (from 2.6% in 2005 to 2.42% in 2006) in their area of control and reduced Maternal Mor-	• Workers created "Weekend Warriors" group for social works in Hyderabad, Pune, Bangalore, Bhubaneswar, Gurgaon and Chennai. • Conducted HIV/AIDS awareness, health, education and environment programme. • Developed low cost biometric solutions using fingerprints for Urban Health Posts. • Developed health information helpline number (1056). • 10% of Satyam associates have to spend 10% of their free time for CSR works.10344 Satyam associates gave 25 000 hours.

Table 1 *(Contd.)*

	Reliance Industries	***Ranbaxy***	***Saytam Computers***
	• Round the clock medical facilities and • 1,596 patients were treated under schemes for senior citizens, poor patients, etc. • Developed Public Health Centre near Gandhar Complex (Gujarat) for 40,000 villagers. • Set up state-of-the-art hospital at Lodhivali and Mumbai.	tality Rate to zero from 1% in 2005. Birth rate too reduced from 23% (1998) to 16.7%(2006) in those areas. • Set up street lights, drinking water projects, local schooling infrastructure in Mohali, Toansa, Dewas, and Gurdgaon. • Ranbaxy Research Awards to scientists contributing towards medical science.	• 2,00,000 patients got free healthcare and 500 Thalassaemia children got support of fresh blood. • Set up "Red Ribbon Clubs' to combat HIV/AIDS matters. • Set up 8 IT schools for under developed youths, their average income being Rs.4,000 p.m. • Provided writing materials, science kits to 55,000 school children of Hyderabad, Bangalore, Chennai and Bhubaneshwar. • Mentored 1600 street children.
Environment	• Conducted Environmental Audit under EHS Team; Jamnagar complex got ISO14001:2004 certificate in 2006.	• Reduced Greenhouse Gases. • Toansa and Mohali plant is targeting for ISO 14001 certificate in future.	• 13,000 saplings distributed. • 12 tons of waste materials collected from Satyam premises and recycled to paper boards.

Table 1 *(Contd.)*

	Reliance Industries	***Ranbaxy***	***Saytam Computers***
	• Jamnagar plant disposed oily rags through incinerators, installed cooling tower and reduced fine coke dust. • "Waste-to-Resource" and "Zero-garbage" schemes introduced in Jamnagar, Patalganga, Vadodara plants.	• Set up Hazardous Waste Incinerators to meet CPCB.	• A film on "Ban on Plastics" screened in 40 theatres of Hyderabad. • 60,000 stickers distributed in Chennai to reduce road accidents.
Safety	• Injury rate decreased in RPL refinery at Jamnagar. • Training to prevent household accidents	• Set up 24 × 365 surveillance team in all plants. • Steps taken to eliminate fire hazards associated with ESD. • LEV systems installed to control the concentration of flammable vapors. • Set up EHS Management System to meet global standards. • Taken up environment, health and safety (EHS) audit and EHS training programmes.	

Table 1 *(Contd.)*

	Reliance Industries	***Ranbaxy***	***Saytam Computers***
Education	• Project training for engineering students. • Promoted girl education in 32 villages of Jamnagar and Lalpur. • Dhirubhai Ambani Reward to school level and UG level students. • Created a fund of Rs. 1.55 crore for welfare of children of Kargil war martyrs/disabled. • Set up Dhirubhai Ambani International School.		
Other Initiatives	• Surplus labo-ratories of the company are donated to educational institutions. • Vocational training given at Vadodara complex. • Reliance Rural Development Trust has constructed roads, kindergartens, community halls in Vadodara complex covering 40 villages and 2,00,000 people. • Supply of water and fodder to Moti Khavdi, Sikka, Nani Khavdi, Gagva, Pipli, Padana villages during summer.		

7. Concluding observations

From self-serving advertisements and brief sections in annual reports, mostly confined to the environment, corporate social responsibility reporting in America has come a long way. In India, however, CSR reporting is only beginning to evolve and resembles U.S. reporting of the Sixties. May be over time, many more Indian companies will come forward to publish CSR more systematically. International developments and the pulls and pressures of a global economy are bound to impact the Indian companies.

The changes in the United States have come fast and furious in the 21st century. Corporate social responsibility reporting is now widespread and is becoming more transparent. The reports are sophisticated in format, structure and content particularly as evidenced by the 2006 reports for UPS and G.E. The qualitative and quantitative contents of reports, before release, are often reviewed by internal auditors. The input of stakeholders on the quality and limitations of reports is actively sought and often included as a part of the report. GRI's guidelines are being increasingly followed. The GRI's mission is to make sustainability reporting similar to financial reporting based on generally accepted accounting principles, comparable over time and across business entities. Increasing adherence by companies to GRI standards in their published reports will promote such comparability. The companies are quick to acknowledge that more precise metrics in social reporting are needed and are still evolving. With mounting and constant public pressure from various interest groups, it may not be wrong to predict that, in times to come, there will be a greater degree of standardization and transparency in reporting, with more precise metrics.

Endnote

The Coca-Cola Company 2003 Citizenship Report: The Report begins with a declaration of the Company's commitment to the highest standards of citizenship and ethical conduct throughout its system. Within the bounds of the system are its numerous bottling partners in more than 200 countries in which Coca-Cola does business. Among its operating principles are the promotion of opportunities for its customers, suppliers, distributors, and consumers; fosterling a safe and inclusive environment for its workforce; stewardship that protects and preserves the environment; and earning the goodwill of the community through locally relevant initiatives. The 2003 Report is essentially a description of the initiatives taken by its various units by

region: North America, Latin America, Africa, Eurasia, the Middle East and Asia. The initiatives described relate to education, health and physical activity, diversity, leadership training, and community service including volunteering by employees, special programmes for women and children, and the environment.

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Towards a Better Corporate Citizen: An Assessment of NTPC

Ashish Kumar Sana

Abstract

Importance of power sector industries is immense in the present world of business. At the same time, power generating companies are facing a lot of competitive challenges. They also face land acquisition problems, rehabilitation and resettlement problems or problems of environmental pollution. National Thermal Power Corporation (NTPC) is the largest power generating company operating 26 power stations in different remote places in the country. NTPC has been identified as 'Navaratna' company by the Government of India by its various socio-economic activities. It framed a Corporate Social Responsibility (CSR) policy which covers environment, rehabilitation and resettlement, community development and energy conservation aspects in order to become a better corporate citizen. This paper seeks to assess the different aspects of CSR of NTPC.

Key words : Community Development, Corporate Social Responsibility, Corporate Citizen, Rehabilitation and Resettlement.

1. Introduction

Business is expected to create wealth, create market, generate employment, innovate and produce a sufficient surplus to sustain its activities and improve its competitiveness. Society is expected to provide environment in which business can develop and prosper, allowing investor to earn returns. Business performs a number of roles in the society. But this role changes over time.

In 1997, John Elkington, a noted management consultant developed the concept of Triple Bottom Line (TBL). This concept is based on the premise that business entities have more to do than make just profits for the owners of the capital, the only bottom-line people generally understand. There is a need to

add two more bottom-lines—environmental and social. It refers to the process of identifying, assessing and supporting business activities in terms of their impact on the environment, society and profitability.

Corporate Social Responsibility (CSR) is a responsibility of corporate towards its employees, customers, suppliers, government and community. In India, the role of CSR has been gaining momentum for a decade now. The realisation that the participation of the private sector can foster the public-private partnership is vital in terms of sharing resources, bringing in expertise and appropriate technologies. This can enhance visibility of campaigns, and bring about civil society response.

In order to recognize and applaud the social commitment of the corporate, FICCI-Socio Economic Development Foundation (SEDF) in collaboration with Buinessworld has instituted the "Businessworld-FICCI-SEDF Corporate Social Responsibility Award". It was the first of its kind in India to recognize and applaud the achievements of corporate in the area of Corporate Social Responsibility in India. Over the years, a number of companies including TISCO, TELCO, HINDALCO, Satyam Computers, Lupin, Gujarat Ambuja Cements, Kinetic Engineering, Canara Bank, Titan and NTPC have been recognized for their innovative programmes in Corporate Social Responsibility.

Government of India (GOI) has identified NTPC as one of the jewels of public sector "Navaratnas", a potential global giant. It is the largest thermal power generating public sector company of India. NTPC is committed to the environment, generating power at minimal environmental cost and pressing the ecology in the vicinity of the plants. NTPC is doing community development programme, afforestation and resettlement and rehabilitation programme to become a good corporate citizen. This company has a corporate social responsibility policy. The objective of this paper is to assess the CSR policy and practice of NTPC. The remainder of the paper is, accordingly, divided into three sections. Section two gives an overview of NTPC. NTPC's approach towards better corporate citizen is dealt in section three and section four draws conclusion.

2. Overview of NTPC

In respect of distribution and transmission of power, India is placed third in the world. In order to sustain the GDP growth

at the desired level of over 8% p.a., the growth in generation of electricity has to be commensurate. The government has been taking several initiatives to give thrust to the growth and reform of the power sector and also to make electricity reach the rural areas and the poor people. The electricity Act, 2003 creates a liberal transparent and enabling legal framework for power development. It facilitates investment by creating competitive environment and reforming distribution segment of power industry.

NTPC played an important role in generation and distribution of power in India since its inception in 1975. It is a wholly owned company of the Government of India. At present, Government of India holds 89.5% of the total equity shares of the company and the balance 10.5% is held by Foreign Institutional Investors, domestic banks, public and others. Within a span of 31 years, NTPC has emerged as a truly national power company, with power generating facilities in all the major regions of the country.

NTPC's core business is engineering, construction and operation of power generating plants. It also provides consultancy in the area of power plant construction and power generation to companies in India and abroad. From Table I it has been found that the installed capacity of NTPC on 31st March 2007 is 27,904 MW through its 15 coal based (22,895 MW), 7 gas based (3,955 MW) and 4 joint venture projects (1,054 MW).

Table 1
NTPC's Installed Capacity

Projects	No. of Projects	Commissioned capacity (MW)
NTPC OWNED		
COAL	15	22,895
GAS/LIQ. FUEL	07	3,955
TOTAL	22	26,850
OWNED BY JVCs		
Coal	3	314 *
Gas/LIQ. FUEL	1	740 **
GRAND TOTAL	26	27,904

* Captive Power Plant under JVs with SAIL
** Power Plant under JV with GAIL, FIs & MSEB

Power stations of NTPC are located mostly in remote places throughout India. Out of 15 coal based stations, 5 stations are situated in Uttar Pradesh. Other stations are mainly in Andhra Pradesh, Orissa, Chattishgarh, Bihar, Delhi, Madhya Pradesh and West Bengal where high quality coals and other facilities are available. Gas based power stations are situated in Rajasthan, Gujarat, Uttar Pradesh, Kerala and Haryana where important oil mines and refineries are located. This is shown in Table 2.

Table 2

Coal Based Power Stations

Coal based		State	Commissioned capacity (MW)
1.	Singrauli	Uttar Pradesh	2,000
2.	Korba	Chattisgarh	2,100
3.	Ramagundam	Andhra Pradesh	2,600
4.	Farakka	West Bengal	1,600
5.	Vindhyachal	Madhya Pradesh	3,260
6.	Rihand	Uttar Pradesh	2,000
7.	Kahalgaon	Bihar	1,340
8.	NTCPP	Uttar Pradesh	840
9.	Talcher Kaniha	Orissa	3,000
10.	Unchahar	Uttar Pradesh	1,050
11.	Talcher Thermal	Orissa	460
12.	Simhadri	Andhra Pradesh	1,000
13.	Tanda	Uttar Pradesh	440
14.	Badarpur	Delhi	705
15.	Sipat	Chattisgarh	500
Total (Coal)			**22,895**

Table 2 *(Contd.)*
Gas/Liq. Fuel Based Power Stations

	Gas based	**State**	**Commissioned Capacity (MW)**
16.	Anta	Rajasthan	413
17.	Auraiya	Uttar Pradesh	652
18.	Kawas	Gujarat	645
19.	Dadri	Uttar Pradesh	817
20.	Jhanor-Gandhar	Gujarat	648
21.	Rajiv Gandhi CCPP Kayamkulam	Kerala	350
22.	Faridabad	Haryana	430
Total (Gas)			**3,955**

Besides its own coal and oil based stations, NTPC acquired 50% equity of the SAIL Power Supply Corporation Ltd. (SPSCL). This joint venture company operates the captive power plants of Durgapur (120 MW), Rourkela (120 MW) and Bhilai (74 MW). NTPC also has 28.33% stake in Ratnagiri Gas & Power Private Limited (RGPPL) a joint venture company between NTPC, GAIL, Indian Financial Institutions and Maharashtra State Electricity Board Holding Co.Ltd. The recent capacity of RGPPL is 740 MW as shown in Table 3.

Table 3
Power Plants with Joint Ventures

	Coal Based	**State**	**Fuel**	**Commissioned capacity (MW)**
1.	Durgapur	West Bengal	Coal	120
2.	Rourkela	Orissa	Coal	120
3.	Bhilai	Chhattisgarh	Coal	74
4.	RGPPL	Maharastra	Naptha/LNG	740
Total (JV)				**1054**

NTPC has been ranked fifth among the top ten *"best companies to work for in India"* by Mercer HR Consulting-Business Today Survey 2005. This is the third consecutive year that NTPC has appeared in this prestigious list. Besides, NTPC is also the only PSU among the top ten companies. The survey was conducted on the basis of four attributes such as **HR Metrics, HR Processes and policy, Internal Employee Perception & Stakeholder Perception** on a weighted scale to arrive at a total score for each company surveyed.

NTPC has set new benchmarks for the power industry both in the area of power plant construction and operation. It is providing power at the cheapest average tariff in the country. With its experience and expertise in the power sector, NTPC is extending consultancy services to various organizations in the power business.

This company already employed around 23500 persons under its different departments. Its Human Resources Department has formulated an integrated HR strategy which rests on four building blocks of HR viz. competence building, commitment building, culture building and systems building. All HR initiatives are undertaken within this broad framework to actualize the HR Vision of **"enabling the employees to be a family of committed world class professionals making NTPC a learning organization"**.

3. NTPC's approach towards CSR

Generally there is lack of attention to poorer communities outside the regions and sectors in which the CSR debate is continues. For this reason most of the big companies in India have formulated CSR policies and guidelines according to their needs and requirements. Similarly, NTPC has also set its CSR policy and guidelines.

The vision of the company is "to be one of the world's largest and best power utilities, powering India's growth". NTPC has its distinct mission towards CSR which states :

> Be a socially responsible corporate entity with thrust on environment protection, ash utilization, community development, and energy conservation.

NTPC's approach towards CSR has also been articulated in the corporate objectives on sustainable power development as follows:

> To contribute to sustainable power development by discharging corporate social responsibilities, lead the sector in the areas of resettlement and rehabilitation and environmental protection including effective ash-utilization, peripheral development and energy conservation practices.

From the above mission on CSR, NTPC focuses four important areas CSR of:

- Environmental Protection
- Ash Utilization
- Community Development
- Energy Conservation.

Environmental Protection & Ash Utilisation

Most of the power stations of NTPC are situated in different remotes places in India. At the time of setting up of those power stations the company utilized huge amount of cultivated land, barren land and forest areas. Naturally, there arises a question as to whether the company took necessary initiatives to protect environment. It may be mentioned there is an impact on environment whenever power is generated through coal, fuel or gas. Obviously responsibility falls on NTPC to protect environment as well as to control pollution.

As per its environment policy the company deals with the following issues in respect of protection of environment: Environment Impact Assessment, Environment Management Plans, Ash Utilisation, Energy Efficiency, Afforestation, and Decentralised Distributed Generation and Supply of Power, Rain Water Harvesting, Energy Conservation and Adoption of International Standards like ISO-14000. These are formulated through specific policy frameworks and administered through institutional set up like Environment Engineering Group (EEG), Environmental Management Group (EMG), Ash Utilization Department (AUD), CENPEEP, SPV-A, Non-conventional Energy Sources Group, etc.

NTPC is committed to environment by generating power at minimal environmental cost and preserving the ecology in the vicinity of the plants. NTPC has undertaken massive afforestation in the vicinity of its plants. Plantations have

increased forest area and reduced barren land. The massive afforestation by NTPC in and around its Ramagundam power station has contributed to reduction of temperature in the area by about 3°C. NTPC has also taken proactive steps for ash utilization. In 1991, it set up Ash Utilisation Division to manage efficiently the use of the ash produced at its coal stations. Consequently, the quality of ash produced is ideal for use in cement, concrete, cellular concrete building material.

As early as in November 1995, NTPC brought out a comprehensive document entitled 'NTPC Environment Policy and Environment Management System'. Amongst the guiding principles adopted in the document are company's proactive approach to environment, optimum utilisation of equipment, adoption of latest technologies and continual environment improvement. The policy also envisages efficient utilisation of resources, thereby minimising waste, maximising ash utilisation and providing green belt all around the plant for maintaining ecological balance.

This company has actively gone for adoption of best international practices on environment, occupational health and safety areas. It has pursued the Environmental Management System (EMS) ISO 14001 and the Occupational Health and Safety Assessment System (OHSAS) 18001 at its different establishments. As a result of pursuing these practices, all NTPC power stations have been certified for ISO 14001 and OHSAS 18001 by reputed national and international certifying agencies.

While deciding the appropriate technology for its projects, NTPC integrates many environmental provisions into the plant design. In order to ensure that this company complies with all the stipulated environment norms, various state-of-the-art pollution control systems / devices have been installed to control air and water pollution.

A 'Centre for Power Efficiency and Environment Protection (CENPEEP) has been established in NTPC with the assistance of United States Agency for International Development (USAID). CENPEEP is efficiency oriented, eco-friendly and eco-nurturing initiative—a symbol of NTPC's concern towards environmental protection and continued commitment to sustainable power development in India.

It monitored at the stipulated frequency discharging of pollutants from its power stations at the source and at the point

of discharge. Ambient air, surface water and ground water quality in and around NTPC plants are regularly monitored to assess any adverse impacts of the power plant.

Environmental reviews are carried out at all operating stations and remedial measures are taken wherever necessary. In order to keep pace with the changing norms, it ensures compliance with statutory requirements in the field of pollution control. It also takes initiative for renovation, modernization, retrofitting and upgradation of pollution monitoring and control facilities in the existing stations.

Resettlement and Rehabilitation (R&R)

As a responsible corporate citizen, NTPC is making constant efforts to improve the socio-economic status of the people affected by its projects. Through its Rehabilitation and Resettlement(R&R) programmes, the company endeavours to improve the overall socio-economic status of project affected persons.

NTPC stresses upon the Resettlement & Rehabilitation, Community Development, Safety, and Adoption of International Standards like OHSAS-18000, Social Security for Old Age, Health, Education, Gender Equality, National Calamity, and special focus on the marginalized section of society during recruitment. These are administered through specific policy framework and dedicated institutional set up like R&R cell, safety department and respective sections of HR department.

NTPC has developed alternate free house plot in resettlement colony with necessary infrastructure facilities or provisions for self resettlement. It has organized free transport arrangement for belongings and reusable material or suitable transport grant. Primary school, dispensary, panchayat cottage, drinking water well / hand pumps, WBM roads, drainage, Sulabh Sauchalaya, etc. have been constructed. Suitable resettlement grant has also been arranged by the company near its power stations. NTPC has adopted 'land for land' on a 'willing buyer willing seller' basis rehabilitation policy. Other rehabilitation options have been undertaken by the company on the basis of need and requirement. Capacity addition programmes, suitable rehabilitation grants, subsistance allowance, etc. have been granted by NTPC from time to time.

Community Development (CD) Programmme

Community development is a collaborative, facilitative process undertaken by people (community, institutions, or academic stakeholders) who share a common purpose of building capacity to have a positive impact on quality of life.

Specific outcomes of community development are:

- creating equitable conditions and outcomes for health and wellbeing;
- improving the health and prosperity of the community as a whole;
- fostering sustainable community initiatives;
- fostering sustainable self-sufficiency for the people involved;
- increasing personal worth, dignity, and value;
- building awareness of and resolving issues in the community.

NTPC's operating stations are located all over India under varying socio-economic conditions. It has taken various community development programmes at national level and state level, such as, education, health, infrastructure developmental training programmes, etc.

NTPC being a power sector company organises skill development, vocational training, ITI training, computer training and other training programmes to improve the skills and employability of the people, or for enabling people of the project affected areas. Scholarships equivalent to fees charged by schools for the selected local children for studying in schools have been awarded in NTPC townships. Preference is given to female child. Company also is supplying study materials and its like – bags, books, stationary, etc.

It conducts health surveys including health concern, awareness campaign, and distributes material, films, etc. NTPC organizes on regular basis the immunization programme for children and conducts medical checkup in schools. Regular health camps like family planning, medical checkup for eye and heart etc. has also been organized by NTPC with particular focus on women, children, disabled persons and old age persons.

Basic infrastructure facilities like area electrification, community centre, panchayat cottage, water drains, roads, etc. are provided as per the need and requirement of local administration based on the need assessment survey carried

out by the NTPC. Under partnership basis of the concerned government agencies and the local community, it facilitates to create and upgrade of community health, educational facilities. Priorities are also be given to those schools, primary health centre which are operating but do not have facilities like building, equipments, etc. These programmes for providing community infrastructure will be on the basis of bearing one time capital cost. It is on the basis of written assurance that the operational and maintenance cost of such infrastructure will be borne by the concerned stakeholder like the Government Department/Agency or the Panchayat/local authority or the community based organizations/non-governmental organizations, etc.

It promotes rural sports and organises annual sports in the villages providing by equipments and other facilities. Each station compulsorily identifies a specific day or week for organising annual rural sports meet. NTPC has been sponsoring talented local sportsman for training and development at national sports institutes. It organizes veterinary camp for the cattle stock. The company promotes community plantation and forestry programmes. To facilitate the unemployed people in and around the new projects or old operating stations, it helps rural youths in self-employment through co-operatives/self-help groups. The programme also include provisions for the enabling mechanism such as backward linkage like tying up the input resources and forward linkage like marketing etc. In addition, any other programme will be considered under this policy as may be deemed appropriate by the head of the station.

A nodal officer from human resource department coordinates and monitors the CD activities at stations under region and compiles the quarterly and annual CD report for submission to corporate CSR department. The station forms an advisory committee for considering the unit level CSR – CD programmes may include the representatives of concerned State Government. The CSR-CD policy is implemented through dedicated CSR Cell under the HR department. The head of HR has overall responsibility at all stations.

An amount of up to Rs.17 crore is earmarked every year for implementation of CSR - CD programmes as per NTPC's policy. The allocation of funds may vary depending on the need and requirement of NTPC operating stations, NTPC foundation and provision for the national calamity in the respective year.

and, therefore, is decided on year to year basis. Allocation of funds for the operating stations is based on the proposals submitted by these stations and the overall allocation of funds. Broad allocation of funds during 2005–06 and 2006–07 is shown in Table 4.

Table 4
Allocation of funds for CD programme

Sl. No.	Allocation	%age of funds	Net Value (Rs. In Cr.)
1	Operating Station	50-60	8.50-10.20
2	NTPC Foundation	30-40	5.10-6.80
3	Unallocated (for foundation, stations, National calamities etc.)	10	1.70
4	Total	100	17.0

Source: Annual Report of NTPC 2005-06& 2006-07

NTPC is a member of Global Compact, a UN initiative launched by its Secretary General, Mr. Kofi Annan, and is committed to adhere to its ten principles in the areas of Human Rights, Labour, Environment and Anti-corruption. NTPC is also a member of Corporate Roundtable on Development of Strategies for Environment (CoRE) initiated by Tata Energy Research Institute (TERI) and confirmed its support for the principles outlined in the CoRE. This corporation has also been adopted the Social Code framed by India Partnership Forum (IPF) promoted by Confederation of Indian Industries (CII) and United Nations Development of Programme (UNDP). NTPC thus follows the global practice of addressing the CSR issue in an integrated multi-stakeholder approach covering the environment and social aspects with a view to becoming a good corporate citizen.

Conservation of Energy

It is a global problem to all non-renewable energy based power stations. As these resources are limited, so power generating stations either are trying to conserve energy or to use renewable energy in the future. NTPC has also taken many

initiatives in this respect. Some of the initiatives are:

(a) operation of circulating water pumps and cooling towers based on ambient conditions and actual requirement of plants (Kahalgaon, Kayamkulam, Simhadri, Talcher Thermal, Korba);

(b) optimization of running of compressors, installation of new fills in cooling tower (Vindhyachal);

(c) use of vapour absorption machine for air conditioning (Kahalgaon);

(d) use of energy savers for window air conditioners (Talcher Thermal, Singrauli, Kawas, Korba);

(e) installation of timer switches in plant and township lighting (at Anta, Kawas etc), use of energy savers (Kawas);

(f) replacement of conventional GLS lamps and conventional FTL's with CFLs and conventional FTL's with energy efficient tube lights (Dadri-gas, Singrauli);

(g) re-use of recovered coal from settling tank & yard (at Dadri-coal etc), repair of thermal insulation and cladding (Vindhyachal, Korba, Farakka, Unchahar, Singrauli, Ramagundam, Badarpur, Dadri);

(h) using Milling Plant Super Performance internals in coal mills and reduction in unit start-up and shutdown time (Farakka in 05 units);

(i) optimization of topping up of lubricant oil (Singrauli) and use of waste lubricant oil for marshalling yard fittings works (Talcher Thermal);

(j) attending DM water and steam leakages (at Kahalgaon, Singrauli etc), diverting drip of chimney steam condenser to hot well (Talcher Thermal).

In-house energy audits in the areas of auxiliary power consumption, water balance, cooling water system, compressed air, coal handling plant, MGR, lubricant oil system, air conditioning, ash handling system, GT compressors, GT open cycle efficiency, lighting, WHRB performance etc. are carried out at different stations. This company has also successfully completed external energy audits of auxiliary power consumption of various other utilities, which include 3 stations of APGENCO, Andhra Pradesh and complete energy audit at one unit (1 × 120 MW) of Tata Power, Jojobera. NTPC has also been entrusted with the energy audit job of 15 units of different power plants in the Kingdom of Saudi Arabia.

An amount of Rs. 489.40 million has been saved by NTPC for the year 2006-07 on account of specific efforts for energy conservation as detailed in Table 5.

Table 5
Conservation of energy under different activities

Sl. No.	Area/Activities	Energy Unit	Savings Qty.	(Rs. Million)
1	Electrical (including 4.995 MU savings in lighting)	MU	253.9131	318.85
2	Heat Energy (equivalent MT of coal)	MT	56451	51.78
3	Fuel Oil	KL	7365.53	94.32
4	D.M.Water	MT	41250	0.70
5	Miscellaneous Water	M.Cu.M	3	9.62
6	Diesel/MGR Fuel	KL	146.91	4.94
7	Lubricants	KL	160	9.19
	Grand Total			489.40

Source: Annual Report of NTPC: 2005-06 and 2006-07.

It appears that Rs.318.85 million saved from electrical activities and Rs. 94.32 million, from fuel oil alternative use. NTPC made an additional provision of Rs. 48.1 million in its budget 2007-08 for different energy conservation schemes like:

- energy meters, power analyzers and other portable energy audit instruments and online energy monitoring system;
- vapor absorption system for air conditioning;
- energy efficient devices in lighting.

4. Conclusion

We have given an overview of CSR policy and practices of NTPC in the foregoing paragraphs. The company has been performing moderately well in the important areas of environmental protection, ash utilisation, community development and energy conservation. But it cannot be denied that its social

responsibility is far more than the other power-generating companies in the country inasmuch as NTPC, as one of the "navaratnas", has proved its excellence in the power section in India. From this perspective and also keeping in view the international best practices in CSR, NTPC needs to improve its CSR activities and reporting further.

Firstly, NTPC has undertaken afforestation programmes mainly in the vicinity of some of its plants. It should cover all power-generating stations and many other adjoining areas by this programme. Secondly, the company is yet to undertake special schemes for improvement of economically weaker sections of the society. Needless to mention, it should be made one of its priority from CSR point of view. Thirdly, in order to ease the strain on the supply of non-renewable energy source, NTPC's research wing should develop alternative source of energy. Any achievement in this regard will promote sustainable development in the infrastructure. Finally, the ongoing CSR activities do not always find adequate disclosure in its annual reports. This may be true in case of many other Indian companies. The CSR reporting should therefore be redesigned to publish all possible CSR activities of the company.

However, NTPC believes in growth with a human face and pursuing people-centred development. This company now is called a socially committed organization and socially responsible citizen. NTPC has to sustain its growth, retain its leadership position in the country and at the same time improve its operational efficiency. In order to reduce dependence on conventional fuel, the company is foraying into hydro, nuclear and non-conventional energy sources. It is expected that NTPC would become a better corporate citizen in the coming years.

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